SHANGHAI COMMERCIAL BANK

2021
ANNUAL REPORT

INNOVATION and INITIATION

Welcome to Shanghai Commercial Bank Limited's website

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CONTENTS

CORPORATE PROFILE

Our Vision

To be a trusted bank of choice of customers in Greater China, served by our staff capable of delivering comprehensive one-stop personalized service, supported by distinctive commercial and international banking capabilities, and innovative digital platform, for sustainable development.

Our Mission

- Sustain business growth through value creation to our customers and shareholders
- Cherish the values of our people with rewarding career opportunities and development
- Build a strong network with our partners to develop long term relationship

Our Values

Proactive
- Take initiative with can-do attitude, be innovative, embrace change and make continuous improvement

Integrity
- Adhere to the highest ethical standards, discipline and righteous behavior

Respect
- Establish mutual trust and respect with colleagues and customers

Professionalism
- Deliver high quality services that cater to customer needs, and commit to continuous learning and enhancement of expertise

Teamwork
- Work collaboratively across teams with mutual support to achieve common goal

Accountability
- Take ownership in work and demonstrate commitment towards achieving extraordinary performance

Leadership
- Direct, inspire, engage and motivate staff to nurture future leaders

Shanghai Commercial Bank (the "Bank") is a renowned local Chinese bank in Hong Kong building on its core strengths and holding a niche market position in corporate and Small-and-Medium sized Enterprises ("SMEs"), and high-net-worth individuals.

"Serve the Community" as motto and "For Personalized Service" as principle, the Bank seeks to meeting customers' needs with a comprehensive range of banking products and services, including loans, deposits, trade finance, remittances, securities trading, investment and wealth management, life and general insurance products, treasury products, foreign exchange, credit cards, international banking, internet and mobile banking, through teams of banking professionals across the global network of 50+ offices and branches in Hong Kong, Mainland China, United States and United Kingdom.

For over 20 years, the Bank has entered into a strategic alliance with Bank of Shanghai in Mainland China and The Shanghai Commercial and Savings Bank in Taiwan. Together we have created the "Three Shanghai Banks, All Caring for You" (「三地上銀，一心為您」) branding, delivering one-stop, cross-strait banking services through a broad footprint comprising of more than 400 outlets around the globe.

Over the years, the Bank has successfully executed on its strategic plans and developed different brands.

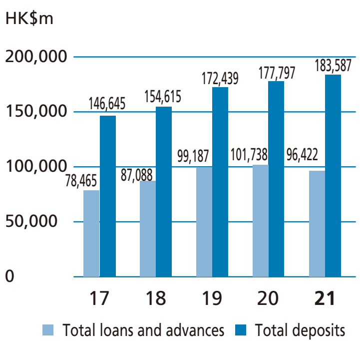
- "SMART Banking" offers privileged banking services and tailor-made investment and wealth management solutions to our premium customers
- "Green Channel" leverages our tri-bank strategic alliance to provide customers with quality one-stop, cross-strait banking services and global business support
- "Shacom Bank" and mobile banking for customers to enjoy e-Banking services anytime, anywhere
- "Shacom Pay" performs real-time interbank transfers and payments through the Faster Payment System
- "Shacom Stock" allows customers to trade securities on the go

The Bank has been rated A1 by Moody's and A- by Fitch. The Banker Magazine once again ranked the Bank as the best performing local bank in Hong Kong, with outstanding performance in profitability, operational efficiency, asset quality, return on risk and soundness.

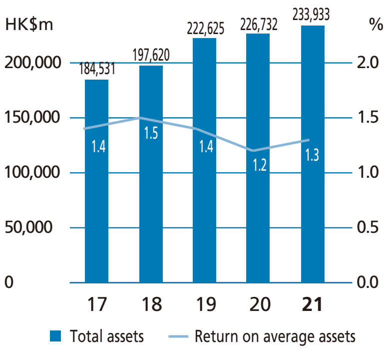
FIVE-YEAR FINANCIAL SUMMARY

	2021	2020	2019	2018	2017
FOR THE YEAR (IN HK$ MILLION)					
Net interest income	**3,653**	3,552	3,977	3,608	3,100
Other operating income	**1,555**	1,518	1,456	1,348	1,504
Operating expenses	**1,697**	1,621	1,649	1,569	1,520
Operating profit	**3,482**	3,323	3,723	3,358	3,025
Profit before other comprehensive income attributable to equity holders	**2,900**	2,736	3,016	2,841	2,424
Dividend	**313**	313	940	940	940
AT YEAR END (IN HK$ MILLION)					
Shareholders' funds	**34,125**	32,403	30,538	27,821	25,468
Total assets	**233,933**	226,732	222,625	197,620	184,531
Total deposits	**183,587**	177,797	172,439	154,615	146,645
Total loans and advances	**96,422**	101,738	99,187	87,088	78,465
FINANCIAL RATIOS (IN PERCENTAGE %)					
Capital adequacy ratio	**21.5**	20.1	19.5	18.6	18.9
Average liquidity maintenance ratio	**60.5**	56.5	53.3	45.7	45.6
Loan to deposit ratio	**52.5**	57.2	57.5	56.3	53.5
Dividend payout ratio	**10.8**	11.4	31.2	33.1	38.8
Return on average assets	**1.3**	1.2	1.4	1.5	1.4

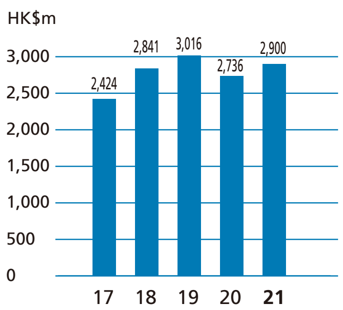
Total loans and advances and total deposits



Total assets and return on average assets



Profit before other comprehensive income attributable to equity holders



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventy-First Annual General Meeting of the Members of the Bank will be held at its Registered Office, Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong on Friday, 22 April 2022 at 9:00 a.m. to transact the following business:

(1) To receive and consider the audited financial statements and the Reports of the Directors and of the Auditor for the year ended 31 December 2021;
(2) To declare Dividend in respect of the year 2021;
(3) To re-elect Directors;
(4) To approve the payment of Directors' fees for the year ended 31 December 2021;
(5) To re-appoint Auditor and to authorise the Directors to fix their remuneration.

A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a Member.

The Register of Members of the Bank will be closed from Friday, 15 April 2022 to Friday, 22 April 2022, both days inclusive.

By Order of the Board
May Yuen-ling KWOK
Corporate Secretary

Hong Kong, 21 January 2022

BOARD OF DIRECTORS

CHAIRMAN

Mr. Stephen Ching Yen LEE
Non-executive Director

EXECUTIVE DIRECTOR

Mr. David Sek-chi KWOK, *Fellow CB*
Deputy Chairman, Managing Director & Chief Executive

NON-EXECUTIVE DIRECTORS

Mr. Hung-ching YUNG, *JP*	(passed away on 3 March 2022)
Mr. CHEN Yih Pin	
Madam DAI Lanfang	(resigned on 29 September 2021)
Mr. JIN Yu	
Mr. John Con-sing YUNG	
Mr. Jafar Altaf AMIN	
Ms. Maria Pui Man KIANG	
Mr. YE Jun	(appointed on 29 September 2021)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Richard LEE	(retired on 21 April 2021)
Mr. Johnson Mou Daid CHA	
Mr. Gordon Che Keung KWONG, *FCA*	
Mr. E. Michael FUNG	
Mr. Charles Chi Man MA	
Mr. Sunny Yiu Tong CHEUNG	(appointed on 15 March 2021)

MANAGEMENT

SENIOR EXECUTIVES

Chief Executive	Mr. David Sek-chi KWOK
Deputy Chief Executives	Mr. Mong-ting CHONG Mr. Burton Chi-shan CHENG
Senior Management	Ms. Wendy Li-chien WENG Mr. Ricky Chi-wai CHAN Mr. Edmund Kin-sang LAI Mr. Christopher Lung-yuen YEONG Mr. Timothy Wai-tai LAW Ms. Clara Chor-hing FUNG Mr. Jerome Chee-keong GOH Ms. Feng TIAN
Chief Auditor	Ms. Mandy Ming-wai CHAN
Corporate Secretary	Ms. May Yuen-ling KWOK

OVERSEAS BRANCHES

London Branch	Mr. Jerome Chee-keong GOH
Los Angeles Branch	Ms. Justina SETO
New York Branch	Mr. Timothy Kam-tim CHAN
San Francisco Branch	Mr. Philip She-hoi LEE

MAINLAND BRANCHES

Shenzhen Branch	Mr. Dixon Kam-hung IU
Shanghai Branch	Ms. Lydia Li-ying CHEN

DIRECTORS

Mr. Stephen Ching Yen LEE

Aged 75. Chairman and Non-executive Director. Appointed a Director of the Bank in June 2004 and elected Chairman in April 2016. Chairman and Managing Director of The Shanghai Commercial & Savings Bank, Ltd., Taiwan, Managing Director of Great Malaysia Textile Investments Private Ltd., a Director of CapitaLand Ltd. and Temasek Holdings (Private) Ltd. Chairman of Singapore Airline Ltd. from 2006 to 2016 and a member of the Council of Presidential Advisers of Singapore from 2008 to 2020.

Mr. David Sek-chi KWOK, Fellow CB

Aged 68. Managing Director and Chief Executive of the Bank since October 2007 and appointed Deputy Chairman in March 2020. Joined the Bank in October 1971 and appointed a Director in October 2001. Chairman of the Executive Committee of the Bank since November 2007. A Director of Bank of Shanghai Co., Ltd., Shanghai.

Mr. Johnson Mou Daid CHA

Aged 70. Appointed a Director of the Bank in September 2001. Chairman of the Nomination and Remuneration Committee of the Bank since April 2021. Chairman of Hanison Construction Holdings Ltd. and C.M. Capital Advisors (HK) Ltd., as well as a Director of Mingly Corporation, HKR International Ltd. and Million Hope Industries Holdings Ltd. A board member of Qiu Shi Science & Technologies Foundation, a founding member of Moral Education Concern Group, a member of the Finance Committee and of the Council of The Hong Kong University of Science and Technology.

Mr. CHEN Yih Pin

Aged 82. Alternate Director of the Bank since June 2004 and appointed a Director of the Bank in April 2006.

Mr. Gordon Che Keung KWONG, FCA

Aged 72. Appointed a Director of the Bank in August 2008. Chairman of the Audit Committee of the Bank since January 2009. A fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants. An Independent Non-executive Director of a number of locally-listed companies, including Chow Tai Fook Jewellery Group Ltd., NWS Holdings Ltd., FSE Lifestyle Services Ltd., Henderson Land Development Co. Ltd., Agile Group Holdings Ltd. and COSCO Shipping International (Hong Kong) Co. Ltd.

Mr. E. Michael FUNG

Aged 65. Appointed a Director of the Bank in December 2015. Chairman of the Risk Committee of the Bank since August 2017. Chairman and Principal of SouthBay Investment Advisors Ltd. An Independent Non-executive Director of Dickson Concepts (International) Ltd. and a member of Gleneagles Hong Kong Hospital Advisory Council. A member of the Financial Services Development Council, Hong Kong from January 2013 to January 2017.

Mr. JIN Yu

Aged 57. Appointed a Director of the Bank in January 2016. Chairman of Bank of Shanghai Co., Ltd., Shanghai. A Director of Shanghai United International Investment Ltd.

Mr. John Con-sing YUNG

Aged 53. Alternate Director of the Bank since March 2013 and appointed a Director of the Bank in May 2016. Managing Director and Consultant of The Shanghai Commercial & Savings Bank, Ltd., Taiwan. Chairman of AMK Microfinance Institutions Plc. and Director of Nanyang Holdings Ltd.

Mr. Jafar Altaf AMIN

Aged 49. Appointed a Director of the Bank in October 2018. Executive Vice President, Regional President and Head of Corporate & Investment Banking, Asia Pacific, Wells Fargo & Company. A Director of Wells Fargo International Banking Corporation, Wells Fargo Securities Asia Ltd. and Wells Fargo Securities (Japan) Co., Ltd.

Ms. Maria Pui Man KIANG

Aged 56. Appointed a Director of the Bank in October 2019. Solicitor of HKSAR and New South Wales, Australia. Assistant General Counsel, Asia Pacific, Legal Department of Wells Fargo Bank N.A.

Mr. Charles Chi Man MA

Aged 74. Appointed a Director of the Bank in October 2019. Chairman of the Sustainability Committee of the Bank since April 2021. Consultant of mReferral Corporation (HK) Ltd. Former chief executive of China Construction Bank (Asia) Corporation Ltd., Macau Chinese Bank Ltd. and Bank of Shanghai (Hong Kong) Ltd.

Mr. Sunny Yiu Tong CHEUNG

Aged 67. Appointed a Director of the Bank from July 2014 to December 2015. Re-appointed a Director of the Bank in March 2021. Chairman of the Digital Transformation Committee of the Bank since April 2021. Former chief executive officer of Octopus Holdings Ltd. and Octopus Cards Ltd. An Independent Non-executive Director of TransUnion Credit Information Services Ltd., as well as a member of the Corruption Prevention Advisory Committee of The Independent Commission Against Corruption, the Entrepreneurship Committee Advisory Group of CyberPort and the Campaign Committee of The Community Chest of Hong Kong.

Mr. YE Jun

Aged 49. Appointed a Director of the Bank in September 2021. Chairman of Shanghai United International Investment Ltd. and Sino-US United MetLife Insurance Co., Ltd. Director and General Manager of Shanghai Alliance Investment Ltd. A Director of Bank of Shanghai and Hua Hong Semiconductor Ltd.

SENIOR EXECUTIVES

Mr. David Sek-chi KWOK

(Biographical details are set out on page 8)

Mr. Mong-ting CHONG

Aged 59. Deputy Chief Executive, Chief of Corporate Banking Group. Joined the Bank in October 2015.

Mr. Burton Chi-shan CHENG

Aged 60. Deputy Chief Executive, Chief of Information Technology & Operations. Rejoined the Bank in August 1996.

Ms. Wendy Li-chien WENG

Aged 52. Chief Financial Controller. Joined the Bank in May 2012.

Mr. Ricky Chi-wai CHAN

Aged 50. Chief of Retail Banking. Joined the Bank in February 2014.

Mr. Edmund Kin-sang LAI

Aged 61. Chief of Treasury. Joined the Bank in December 2014.

Mr. Christopher Lung-yuen YEONG

Aged 60. Chief Risk Officer. Joined the Bank in December 2015.

Mr. Timothy Wai-tai LAW

Aged 45. Deputy Chief Risk Officer & Chief of Legal & Compliance. Joined the Bank in May 2016.

Ms. Clara Chor-hing FUNG

Aged 60. Chief of Human Resources. Joined the Bank in August 2016.

Mr. Jerome Chee-keong GOH

Aged 49. Chief of Property Development. Joined the Bank in November 2013.

Ms. Feng TIAN

Aged 47. Chief Lending Officer, U.S. Branches. Joined the Bank in August 2018.

Ms. Mandy Ming-wai CHAN

Aged 48. Chief Auditor. Joined the Bank in June 2000.

Ms. May Yuen-ling KWOK

Aged 51. Corporate Secretary. Joined the Bank in March 1994.

In Memory of Mr. Hung-Ching Yung, JP
深切悼念榮鴻慶太平紳士

The Board of Directors and all staff of Shanghai Commercial Bank express profound sorrow over the passing of Mr. Hung-Ching Yung, JP, and extend their deepest condolences to his family. A recognized gentleman with acute business acumen and visionary leadership, Mr. Yung contributed immensely to the sustainable development of Shanghai Commercial Bank in Hong Kong and The Shanghai Commercial & Savings Bank, the parent in Taiwan. He looked after his employees as the most valuable assets and nurtured talents. He also established the Three Shanghai Bank Alliance to provide efficient cross-strait banking services and further extended the global branch network. His fellow Board members highly appreciate his lifetime contribution and guidance. We will carry forward the cause and forge ahead into the future.

Mr. Yung was also one of the pioneers in building the Hong Kong's textile industry, notably introduced the first vertically integrated mill capable of spinning, weaving and dyeing in Hong Kong. He was also a true philanthropist who had brought positive impact to the communities and helped thousands of young people in furthering their education. His kindness and humility, determination and perseverance will be sorely missed. The passion he carried in his heart for the Banking Group, his business, the staff and the community will forever be remembered.

上海商業銀行董事榮鴻慶先生，JP安詳辭世，上海商業銀行董事會暨全體員工深表哀悼。榮先生是一位備受尊崇的紳士，他的商業智慧及高瞻遠矚，對香港上海商業銀行及台灣上海商業儲蓄銀行的可持續發展貢獻甚大，他視員工為最重要資產，培育人才，成立了三地上海銀行聯盟，奠定堅實的銀行網絡。董事會衷心感謝榮先生一生寶貴的貢獻和指導，我們會發揮薪火相傳的精神，繼往開來，邁向未來。

榮先生亦是香港紡織業的先驅者之一，在香港建立了第一家能紡紗、織布和染色的垂直一體化工廠。他亦是一位真正熱心公益的慈善家，為社區帶來了積極的影響，幫助數千名年輕人繼續進修。眾人對榮先生的謙遜仁慈，毅力堅持，感念不捨，深深銘記他對銀行、員工和社區全心全意的投入，不朽的成就。


上海商業銀行
SHANGHAI COMMERCIAL BANK
65TH
Anniversary


上海商業儲蓄銀行 100週年行慶感恩酒會
Since 1915
100th


上海商銀 35.00 35.05 ▲ 2.75 + 8.51%


企業籌資更便捷

United。Teamwork。Customer-Oriented。Create & Share
上下一心　團結一致　以客為本　共創共享

The loyalty, hard work and dedication of our staff in providing personalized service to our customers and teaming up to steer toward greater success.

本行員工謹守崗位，竭忠盡智，發揮專業精神服務客戶，秉持「處處為您着想」的理念，凝聚動力，再創新猷。









Creative Works of Our Staff 本行員工「福中有福」創意作品

上下齊心匯聚中
商機無限處處通
七大核心價值高
十里揚名領先鋒

上商七十 創造可能
金融穩健 傳承創新
文武薈集 人才輩出
行善回饋 共享成果

上商銀行 扎根香港 滿七十載
羣策羣力 與時並進 繼往開來

上海商業銀行
海外名聲響噹噹
商家圈中人氣暢旺
業務發展超乎您想像
銀行七十年處處為您着想
行內領先未來繼續發光發亮

上海商業 七十周年
海外知名 穩中求變
商機處處 力求創新
業務多元 以客為專
七大價值 同寅遵從
十年樹木 百年樹人
周年誌慶 貴客盈門
年年月月 與客同行

賀管理層 領導才能
上下一心 團隊精神
商業理財 專業服務
七種價值 彼此尊重
十分投入 積極主動
周而復始 承擔責任
年年月月 堅守誠信

上下同心七十載
海外客戶遠流長
商祺興隆通三地
業務擴展進無疆
銀號駿業展宏圖
行業創新耀輝煌

上商喜逢七十載
海天陸地皆歡喜
商家齊來賀大壽
業務蒸蒸創高峰
銀紙不斷滾滾來
行家都讚齊喝采

上商建根七十載
根基紮實又穩固
業務網絡遍多地
多元服務享優勢
處處為你着想好
創富增值揾上商

上下齊心抱守七項核心價值共創佳績
商譽滿城凝聚十方和善瑞氣散發光華

上下同心齊努力
商紳攜手創未來
七洲五洋涵覆蓋
十全十美譽同行
周年運轉鴻福至
年添生意好運來

上商偉業七十載 實力遍佈滬港台
客戶載譽滿歸來 亮麗佳績定可再

上商扎根七十載 員工齊心創未來
客戶情誼深似海 業務邁進新世代

上商七十同慶賀
商機處處顯佳績
七十再續千萬年
十足信心創高峯
同心合力人馬壯
慶譽超群傲同儕
賀壽七十齊共享

繼往開來七十載
上海商業盛名在
綠色投資顯傳承
數碼金融創未來

服務香港七十年
精益求精邁向前
拼搏換來事業傲
舉杯同慶業績高

上行上效奠根基
商貿金融創佳績
銀光火樹賀七十
行穩致遠領未來

上海商業慶周年
紮根香港七十年
穩健積極成效見
大展鴻圖福延綿

上下一心齊發奮
商彝夏鼎展才華
七開八得求創新
十年磨劍併進步

上商飛躍七十載
海外海內閃光彩
商務周全人讚賞
業績屢創齊喝采

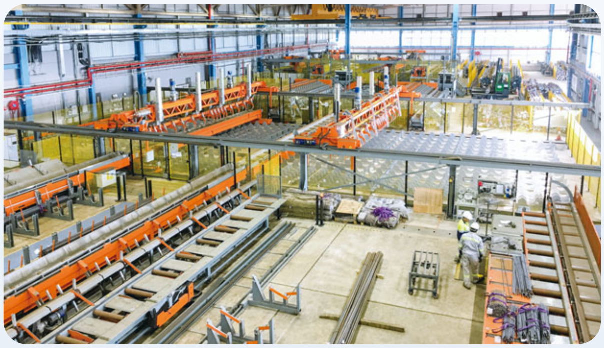
Personalized Service 處處為您着想

The Bank is committed to upholding its core strengths and supporting customers to achieve sustainable business development in the rapid changing environment by its professional team.

本銀行致力鞏固核心業務，由專業團隊助客戶在迅速萬變的環境下實踐可持續發展。

NOVETEX 環保紡織

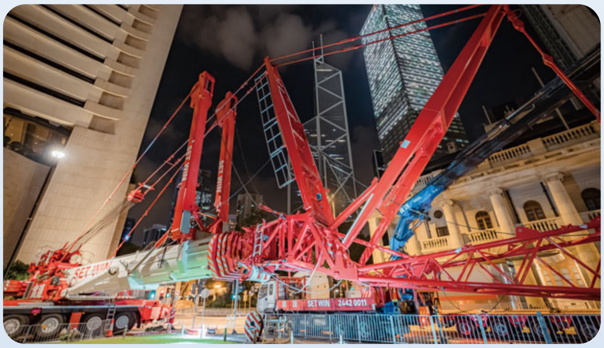
NATIONAL ELECTRONICS HOLDINGS LIMITED
Stock Code: 213 地產



VSC万顺昌 建築加工

永貿產品製作有限公司
WING MAU PRODUCTS DEVELOPMENT LTD. 玩具設計製造

醫療用品



SETWIN 實運 建築機械及工程

三地上銀，一心為您

The 22nd tripartite annual conference was successfully held by video conference. The three Shanghai Banks have agreed to further strengthen the strategic cooperative alliance in the development of green and sustainable finance through integrating resources and embracing complementary advantages.

第二十二屆滬港台「上海銀行」業務研討會以視像會議形式順利舉行。三行已協定進一步深化戰略合作，互聯互動，優勢互補，資源整合，以推進綠色和可持續金融發展。

People-Oriented and Contributing to Society

We support our staff and invest in their career by providing continuous training and development opportunities. We also advocate a healthy and balanced lifestyle at work, encourage our staff to take part in a variety of volunteering services and charitable activities.

以人為本　回饋社會

我們投入資源，致力人才培育，提供各種培訓和發展機會，並倡導員工有平衡健康的工作生活，鼓勵他們參與各項義工服務及慈善活動。

2021 witnessed our community's continuous efforts to mitigate the impact of the ongoing COVID-19 pandemic. As new variants emerged, restrictions again ramped up in Hong Kong since early 2022 impacting economic activities significantly. However, the widespread virus was not the only challenge faced by the banking industry over the past year, with also the persistent low interest rate environment and increasing geopolitical tensions.

Amid these uncertainties, the Bank remained steadfast in its commitment to provide personalized service for customers and to deliver sustainable value to shareholders. We are pleased to announce that the consolidated profit after tax of the Bank for the year ended 31 December 2021 was HK$2,906 million, representing HK$164 million or 6.0% higher than that of the preceding year, mainly attributable to an increase in net interest income and foreign exchange income as well as lower impairment charges. However, total comprehensive income attributable to equity holders for the year 2021 at HK$2,035 million was 27.5% or HK$770 million lower than that of 2020, mainly due to the lower mark-to-market valuation of our equity interest in Bank of Shanghai shares and debt securities portfolio.

The Bank has continued to be prudent and conservative in granting new loans, which helped maintain our healthy and sound credit quality. Total capital adequacy ratio and common equity Tier 1 capital ratio further strengthened to 21.5% and 18.2% respectively at the end of 2021, while liquidity maintenance ratio averaged at 60.5% for the year, all at comfortable levels. "The Banker" magazine had again recognized the Bank as the best performing bank among a group of community banks in Hong Kong in terms of profitability, operational efficiency, asset quality, return on risk and soundness as published in its January 2022 issue.

Business Strategies

Drawing upon the solid foundation that we have built over the past 70 years and the tri-bank strategic alliance with The Shanghai Commercial & Savings Bank, Ltd. in Taiwan and Bank of Shanghai in Mainland China, the Bank continues to explore potential business opportunities and has mapped out a new Strategic Plan for 2021 to 2025. To this end, we are leveraging our unique international reach, with well-placed branches and strong teams in the United States, United Kingdom and Mainland China. The three banks in the alliance have recently signed a Green Finance Strategic Cooperation Agreement, pledging close collaboration on corporate and retail banking initiatives embracing sustainability and green products.

Driven by the Bank's motto "For Personalized Service" and cognizant of the new normal, our team strives to provide best-in-class services to all customers. We invest in our people and systems, and improve our business operating model for our corporate/SME and individual customers. Personalized and user-friendly banking services are available in-person as well as over the internet and they are augmented by efficient online and offline channels. The Bank has set up a Digital Transformation Committee, which focuses on formulating and overseeing the execution of strategies in digitalization, fintech, regtech and cybersecurity. To align with the "Fintech 2025" strategy promoted by the Hong Kong Monetary Authority ("HKMA"), the Bank has put together a corresponding 3-Year Plan on fintech adoption to pursue initiatives that enhance customer experience, operational efficiency, risk management and monitoring, and big data usage.

Sustainability and Social Responsibility

Over the years, the Bank's commitment to our community has been resolute. To step up our contribution for a sustainable world and building climate resilience, a Sustainability Committee has been set up with the mandate to oversee the Bank's roadmap for building and operating a more sustainable bank. We take a holistic approach to Environmental, Social and Governance ("ESG") related matters and climate change controls. We support the HKMA's and the HKSAR Government's initiatives on carbon neutrality and green and sustainable finance, and are offering additional green and ESG products, participating in the HKMA's Pilot Climate Risk Stress Testing exercise, and working towards compliance with the relevant regulations and disclosure requirements. Rooted in Hong Kong for over seven decades, we have maintained our investment through the years in sustainable development and social well-being by supporting community programmes that focus on the environment, youth development and community care. In the year ahead, the Bank will continue to expand our outreach and deepen staff engagements in giving back to the society and building a better, more sustainable future.

Bank Culture

Our values and our staff are at the heart of the Bank's unique culture. In 2021, we have devoted considerable efforts and resources to encouraging proactive learning and teamwork, and promoting a positive bank-wide digital culture. Through a wide array of training and engagement exercises and activities, we are empowering our staff to embrace challenges and opportunities, particularly in light of the digital transformation of our industry and the global need for sustainable development.

Looking Ahead

In the face of uncertainties brought by the current business environment and a competitive landscape, the Bank strives to be an institution that is fit for the future and capable of transcending the various challenges and capturing the opportunities of the time while maintaining our robust approach to risk management.

Externally, the Bank will continue to foster our customer relationships, widen and digitalize our product and service offerings, strengthen our support of small-and-medium-sized enterprises which are the backbone of economies both in Hong Kong and abroad. Internally, we challenge the status quo for innovation, we implement changes for efficiency, and we will continue building on our manpower in fintech, green finance and new energy for contribution to a sustainable economy. We are aware of the talent shortage experienced by the banking and financial industries, which has worsened due to the pandemic and will employ different strategies to allay the concerns, including more importantly building the resources to upskill and prepare suitable internal candidates for talent mobility, identifying the potentials with career development opportunities to thrive, improving workforce engagements, and etc. We would like to thank each and every staff for their commitment and professionalism. Their resilience and acumen have been crucial as the Bank keeps up its strong performance during these truly difficult times.

It is with deepest sorrow to learn the passing away of Mr. Hung-ching YUNG on 3 March 2022. Mr. YUNG was a highly recognized figure and devoted his passion to the Bank wholeheartedly for almost half a century. He will be very missed by many and his fellow Board members and all staff of the Bank will always hold him in their memories. On behalf of the Board of Directors, we extend our deepest condolences to his family.

Our warm welcome to Mr. YE Jun, who joined on 29 September 2021 as a Non-executive Director. Mr. YE is taking the place of Madam DAI Lanfang, to whom we offer our sincere thanks for her invaluable contributions to the Bank since September 2015.

We also wish to express our gratitude to our Board of Directors for their continued guidance and wise counsel, and to our customers and shareholders for their unwavering support and confidence in the Bank. While we hope that the pandemic relents in the near future, allowing for a true global recovery, we will always stand with our customers, our community and our staff.

Stephen Ching Yen LEE
Chairman

David Sek-chi KWOK
Managing Director & Chief Executive

Hong Kong, 9 March 2022

FINANCIAL HIGHLIGHTS

The highlights of the Group's consolidated financial performance for the year are summarized in the table below:

	2021	2020	Variance
HK$ million			
Profit for the year	2,906	2,742	+6.0%
Net interest income	3,653	3,552	+2.8%
Net fee and commission income	787	823	–4.4%
Other non-interest income	769	695	+10.6%
Operating expenses	1,697	1,621	+4.7%
Credit impairment losses	29	125	–76.8%
Total comprehensive income attributable to equity holders	2,035	2,805	–27.5%
Gross loans and advances to customers	96,422	101,738	–5.2%
Deposits from customers	183,587	177,797	+3.3%
Net interest margin	1.66%	1.67%	
Cost to income ratio	32.6%	32.0%	
Loan to deposit ratio	52.5%	57.2%	
Impaired loan ratio	0.54%	0.17%	
Return on average assets	1.3%	1.2%	
Return on average equity	8.7%	8.7%	
Capital adequacy ratio	21.5%	20.1%	
Common equity Tier 1 capital ratio	18.2%	16.9%	
Average liquidity maintenance ratio	60.5%	56.5%	

FINANCIAL REVIEW

For the year ended 31 December 2021, consolidated profit after tax of Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together the "Group") was HK$2,906 million, an increase of HK$164 million or 6.0% from that of 2020, mainly attributable to increases in net interest income and foreign exchange income as well as lower impairment charges. Benefitting from lower interest cost of deposits from customers, net interest income recorded an increase of 2.8% though the average net interest margin was narrowed by 1 basis point to 1.66% from that of 1.67% in 2020 as the low rate environment persisted.

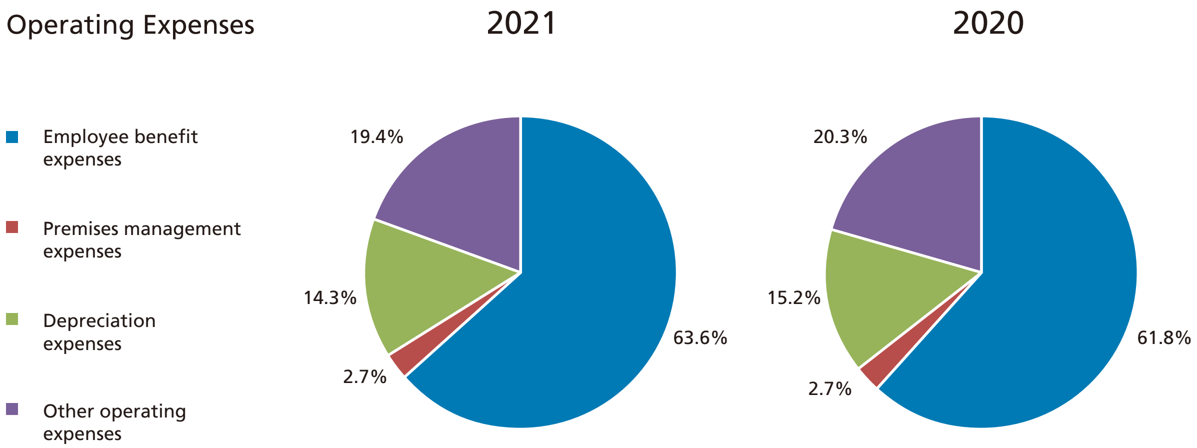
Total net fee and commission income for the year 2021 at HK$787 million reported a decrease of HK$36 million or 4.4% from that of a year ago, mainly attributable to the reduction in loan facility fees, compensated by the increase in life insurance commission, securities brokerage and investment products sales revenue amid market volatility and recovery in the global economy.

Other non-interest income was HK$769 million, an increase of HK$74 million or 10.6% year-on-year, mainly contributed by the surge in income from foreign exchange operation, offset by the equities trading loss and lower contribution from debt securities disposals.

Credit impairment for the year saw a charge of HK$29 million, significantly lower than that of HK$125 million for the preceding year due to improved macroeconomic forecast and decrease in classified loan impairment.

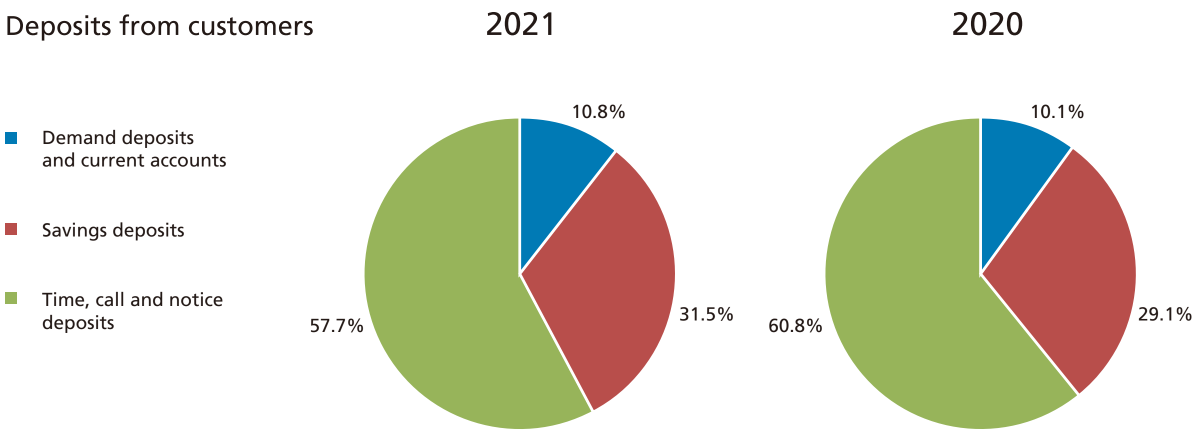
FINANCIAL REVIEW (Continued)

Operating expenses showed an increase of HK$76 million or 4.7% to HK$1,697 million as compared with that of last year partly due to the subsidy received under the Government Employment Support Scheme last year, resulting in the average yearly cost-to-income ratio being increased marginally to 32.6%.



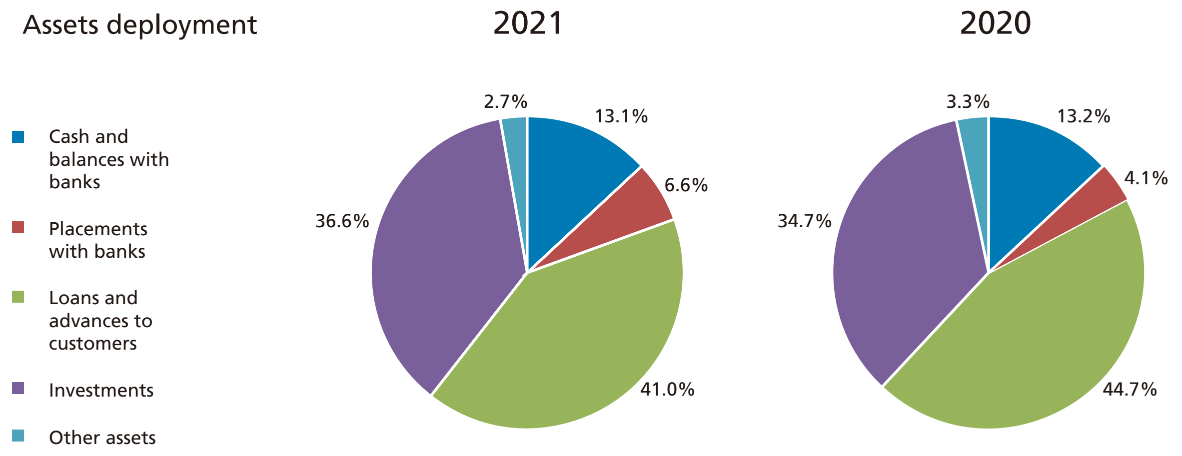
Total comprehensive income attributable to equity holders for the year 2021 was lowered by 27.5% to HK$2,035 million, principally due to the drop in mark-to-market values of the equity interest in Bank of Shanghai shares and the debt securities portfolio.

On a year-on-year basis, total gross loans and advances to customers for the Group at the end of 2021 at HK$96.4 billion was HK$5.3 billion or 5.2% lower than that of HK$101.7 billion at the end of 2020 as the Bank was more conservative in granting new loans. Credit quality of the Group's financial assets continued to be sound and well collateralized. The Group's impaired loan ratio increased from 0.17% at the end of 2020 to 0.54% at the end of 2021 mainly due to newly downgraded substandard loans though fully collateralized, while special mention loan ratio remained stable at 7.0% of total loans and advances to customers at the end of 2021. Total deposits from customers at HK$183.6 billion was HK$5.8 billion or 3.3% higher than that of HK$177.8 billion at the end of 2020. The overall loan-to-deposit ratio at 52.5% at the end of 2021 was lower than that of 57.2% a year ago.



FINANCIAL REVIEW (Continued)

Total assets at the end of 2021 amounted to HK$234 billion, an increase of HK$7.2 billion or 3.2% versus that at the end of 2020, with return on average assets at 1.3% and return on average equity at 8.7% recorded for the year.



The Group has consistently maintained a prudent and robust asset and liability management approach. Total capital adequacy ratio and common equity Tier 1 capital ratio further strengthened to 21.5% and 18.2% respectively at the end of 2021, while liquidity maintenance ratio also remained at comfortable levels throughout the year averaging at 60.5%.

HIGHLIGHTS OF BUSINESS PERFORMANCE

Corporate Banking and Trade Finance

Impacted by the lingering effect of the pandemic and the geopolitical tensions, the local economy was full of uncertainties. The Group ended the year with a mild reduction in corporate loans resulting in lower corporate facility fee income but cross-border trade finance activities recovered with a high single-digit increase on a year-on-year basis.

In 2021, the Group continued to maintain sound credit quality on corporate exposures, both local and overseas, amid the imminent quantitative easing tapering as well as likely interest rate hikes in the United States and other major economies.

Looking ahead, in view of the ongoing pandemic development and rapid changes in the global market, the Group will stay alert to the risk factors on the asset quality of the loan portfolios, and is committed to providing efficient and quality services to customers via various digital channels.

HIGHLIGHTS OF BUSINESS PERFORMANCE (Continued)

Retail Banking

Deposits from customers grew steadily. The current and savings deposits ratio had mild year-on-year growth but the retail loans balance dropped as customers were conservative under the looming interest rate hike. The overall asset quality of retail loans remained healthy. The Group continued to maintain a strong presence in the Reverse Mortgage business while supporting the community by participating in the Principal Moratorium Scheme for Mortgage Loans and Personal Loan Guarantee Scheme.

Despite strong headwind in the investment environment started in the second half of 2021, retail fee income still recorded growth for the year. Our range of Environmental, Social and Governance ("ESG") investment products and our continuous investments in enhancing the securities trading system also supported steady growth in wealth management services and securities brokerage income. Insurance services recorded strong performance in 2021, mainly contributed by our robust distribution capability with Hong Kong Life Insurance Limited as well as new partnering on broker business.

Credit card merchants business showed good year-on-year growth. Faster Payment System (FPS) merchant payment service was launched in the first quarter of 2021 with the aim of increasing our available payment acceptance options to customers. Total credit card spending in the fourth quarter of 2021 returned to pre-pandemic levels and the co-branded credit cards business continued to attract quality customers.

Treasury

Amid the pandemic and market turmoil, the Group continued to maintain a highly liquid position. Our bonds portfolio benefited from the flight to quality investment in the market as we focused on building more sovereign and investment grade credits. We took advantage of the yield curve movements in 2021 for capital gains from bonds disposal while generating stable interest income. As there was a growing expectation of inflation, we directed our new purchases towards the shorter end of the yield curve until steeper curves could justify duration extension.

Tapering and interest rate hike forecasts kept the US dollar strong against other currencies. As such, there was a slowdown in the volume of customer-driven foreign currency transactions during 2021. Nevertheless, the Group enhanced the digital channel in the first quarter of 2022 for customers to enjoy more flexible and convenient foreign exchange services. The Group continued to expand and diversify the customer base by adding more products, including foreign exchange options, on the shelf for investment and hedging purposes.

HIGHLIGHTS OF BUSINESS PERFORMANCE (Continued)

Overseas and Mainland Operations

Overseas and Mainland operations, supported by higher net interest income and lower credit losses, performed well with a high single digit growth in net profit. As the economies and many industries continue to stabilize and are expected to rebound from the pandemic recession in the US, we welcome further growth and development in 2022.

383 East Valley Boulevard,
Alhambra

125 East 56th Street,
New York

231 Sansome Street,
San Francisco

65 Cornhill,
London

9/F, China Merchants Tower,
161 Lu Jia Zui Road (E),
Pu Dong, Shanghai

20/F, Tower One, Kerry Plaza,
Futian District, Shenzhen

RISK MANAGEMENT

To instil a strong risk culture within the Group, we continued to employ various monitoring, stress testing tools and escalation processes for key capital and liquidity thresholds and metrics. We took steps to better manage and mitigate potential risks arising from volatile market conditions and changing credit quality for a sustained stable operating environment.

The Group adapts and embraces innovation and transformation to create value. We supported and participated in a variety of new regulatory-led risk initiatives, such as Regtech and Climate Risk Management. In 2021, the Group had deployed in phases the appropriate Regtech solutions, including eKYC and AML transaction monitoring. Seeing climate change poses a challenge to financial stability, the Group endeavors to engage in understanding, measuring and managing climate risk while promoting green finance, to contribute to the sustainability of our society.

DIGITAL TRANSFORMATION

Under the new normal, there is a paradigm shift in how customers interact with their banks. There are increasing digital needs from our customers as evidenced in the growth of the number of registered and active users on our mobile banking channels over 2021. As part of enriched digital services, individual customers can open their bank accounts remotely via the Bank's Mobile application since April 2021. We also launched Chatbot on our website to provide live chat service for timely assistance and greater convenience while our corporate customers can be better served by our Corporate Banking Mobile application starting from the first quarter of 2022.

Supporting the "All banks go fintech" initiative promoted by the Hong Kong Monetary Authority, the Bank has embarked on a digital transformation journey. With a view to promoting a strong bank-wide digital culture, the Bank had delivered tailor-made training programs including motivating a group of culture carriers, enriching their experience in data analytics and commissioning them to cultivate a digital culture in their respective units.

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2021.

Principal activities

Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together the "Group") are engaged in the provision of banking and related financial services. The principal activities of the Bank's subsidiaries are set out in Note 24 to the consolidated financial statements.

Business review

Discussions on the Group's business and performance are provided throughout this Annual Report and form part of this Report of the Directors.

Topics	Sections
1. A fair review of the business and a discussion with analysis of the performance of the Group for the year ended 31 December 2021, including an analysis using financial key performance indicators, as well as particulars of important events affecting the Group that have occurred since the end of the year 2021 (if any)	• Review of Operations
2. An indication of likely future development in the business of the Group	• Message to Shareholders • Review of Operations
3. Description of the principal risks and uncertainties facing the Group	• Message to Shareholders • Review of Operations • Note 3 to the Consolidated Financial Statements
4. A discussion on the Group's environmental policy and performance	• Message to Shareholders
5. Compliance with relevant laws and regulations which have a significant impact on the Group	• Corporate Governance Report
6. Relationships with the key stakeholders that have a significant impact on the Group	• Message to Shareholders • Review of Operations • Corporate Governance Report

Results and appropriations

The profits of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss on page 54 of this Annual Report.

The Directors recommend the payment of a final dividend of HK$15.65 (2020: HK$15.65) per share, totalling HK$313 million (2020: HK$313 million) for 20,000,000 shares.

Company status

The Bank is a public company since 1 November 2017.

Share capital

The Bank did not issue any new share during the year. Details of the share capital of the Bank during the year are set out in Note 33 to the consolidated financial statements.

Debentures issued

As at 31 December 2021, the Bank had two tranches of Tier-2 subordinated notes outstanding, one totalling US$250 million maturing in 2027 and the other US$300 million maturing in 2029. Both are traded on The Stock Exchange of Hong Kong Limited. The funds raised are used to strengthen the capital base and support the business growth of the Bank.

Equity-linked agreements

During the year ended 31 December 2021, the Bank did not enter into any equity-linked agreement.

Donations

Charitable and other donations made by the Group during the year amounted to HK$10,290,000 (2020: HK$8,712,000).

Directors

The Directors of the Bank during the year and up to the date of this report were:

Non-executive Chairman

Mr. Stephen Ching Yen LEE

Executive Director

Mr. David Sek-chi KWOK

Non-executive Directors

Mr. Hung-ching YUNG	(passed away on 3 March 2022)
Mr. CHEN Yih Pin	
Madam DAI Lanfang	(resigned on 29 September 2021)
Mr. JIN Yu	
Mr. John Con-sing YUNG	
Mr. Jafar Altaf AMIN	
Ms. Maria Pui Man KIANG	
Mr. YE Jun	(appointed on 29 September 2021)

Independent Non-executive Directors

Dr. Richard LEE	(retired on 21 April 2021)
Mr. Johnson Mou Daid CHA	
Mr. Gordon Che Keung KWONG	
Mr. E. Michael FUNG	
Mr. Charles Chi Man MA	
Mr. Sunny Yiu Tong CHEUNG	(appointed on 15 March 2021)

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Stephen Ching Yen LEE, Mr. JIN Yu, Mr. Jafar Altaf AMIN and Mr. E. Michael FUNG shall retire by rotation at the forthcoming Annual General Meeting and are eligible to offer themselves for re-election.

In accordance with Article 95 of the Bank's Articles of Association, Mr. YE Jun shall retire at the forthcoming Annual General Meeting and is eligible to offer himself for re-election.

Madam DAI Lanfang had confirmed that she had no disagreement with the Board and there were no matters in relation to the affairs of the Bank that needed to be brought to the attention of the shareholders of the Bank.

Directors of subsidiaries

The directors of the subsidiaries of the Bank during the year and up to the date of this report were:

Natural Person

Hung-ching YUNG*, John Con-sing YUNG, David Sek-chi KWOK, Ricky Chi-wai CHAN, Timothy Kam-tim CHAN, Burton Chi-shan CHENG, CHENG Ming Ho, Jerome Chee-keong GOH, Zachary Wing-kwong KWAN, Eric Wing-hong KO, Philip She-hoi LEE, LI Yiu Ki, Brenda Fen LEE**, Riggs Kwok-ching TAM, Wendy Li-chien WENG, Annie Pak-yan WONG, Philip Wing-cheong WONG, Sammy Tak-keung WONG, Sharon Kam-wing WONG, William Wai-leung WONG

* Passed away on 3 March 2022.

** Resigned as a director of the relevant subsidiary of the Bank with effect from 19 April 2021.

Body Corporation

Right Honour Investments Limited, Shanghai Commercial Bank Limited

Directors' interests and short positions in shares, underlying shares and debentures

At no time during the year was the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and the Chief Executive of the Bank (including their spouses and children under 18 years of age) to acquire benefits by means of the acquisition of any interests or short positions in the shares or underlying shares in, or debentures of, the Bank or any other body corporate.

Directors' interests in transactions, arrangements or contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Permitted indemnity provision

Pursuant to the Bank's Articles of Association, every Director or other officer of the Bank shall be entitled to be indemnified out of the assets of the Bank against all losses and liabilities (to the extent permitted by the Companies Ordinance) incurred by such Director or other officer in the execution of his/her duties or otherwise in relation thereto. Insurance cover has been arranged to indemnify the Directors and other officers of the Group.

Management contracts

Save for employment contracts, no contracts relating to the management and administration of the whole or any substantial part of the business of the Bank were entered into or subsisted during the year.

Compliance with the Banking (Disclosure) Rules

The Bank has complied with the disclosure requirements set out in the "Banking (Disclosure) Rules" and the "Guideline on the Application of the Banking (Disclosure) Rules" contained in the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

Compliance with the Corporate Governance Code

Details of the Bank's corporate governance practices are set out in the Corporate Governance Report in this Annual Report.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting of the Bank and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Stephen Ching Yen LEE
Chairman

Hong Kong, 9 March 2022

Shanghai Commercial Bank Limited (the “Bank”) and its subsidiaries (together the “Group”) are committed to maintaining good corporate governance to safeguard the interests of its shareholders, depositors and other relevant stakeholders. The Bank is an authorized institution supervised by the Hong Kong Monetary Authority (“HKMA”) under the Banking Ordinance. Throughout the year ended 31 December 2021, the Bank followed the module on “Corporate Governance of Locally Incorporated Authorized Institutions” of the Supervisory Policy Manual (“SPM CG-1”) issued by the HKMA.

The Bank, after taking into consideration its particular circumstances as a non-listed public company, has also adopted the code provisions in the Corporate Governance Code (the “CG Code”) as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) that are relevant to the Bank. This Corporate Governance Report is prepared with reference to the CG Code.

Board of Directors

The Board has collective responsibility for promoting the long-term sustainability and success of the Bank by directing and supervising its affairs within a framework of prudent and effective controls. The Board takes into account the legitimate interests of shareholders, customers, employees and other relevant stakeholders.

The Board is responsible for providing strategic direction and overseeing the implementation of strategic objectives and goals by the Management. The Board has established specialized committees with clear delegation and formal terms of reference setting out the authorities, responsibilities and membership for the oversight of certain major functional areas. Each specialized committee, including Executive Committee (and its sub-committee, Digital Transformation Committee), Audit Committee, Nomination and Remuneration Committee, Risk Committee and Sustainability Committee, is provided with sufficient resources to perform its duties. The Board has also established senior management-level specialized committees as detailed below in this report.

Chairman and Chief Executive

The roles of Chairman of the Board and Chief Executive are separate and are taken up by different persons.

The Chairman, Mr. Stephen Ching Yen LEE who is a Non-executive Director, is responsible for leading the Board and monitoring the overall effective functioning of the Board, as well as ensuring all key and appropriate issues are discussed by the Board in a timely manner.

The Chief Executive, Mr. David Sek-chi KWOK who is an Executive Director, is responsible for implementing the decisions, strategies and policies as established by the Board. The Chief Executive is also responsible for leading the Senior Management in running the day-to-day business and operations of the Bank as well as chairing the Executive Committee.

Board Composition

The Board comprises Directors with a variety of backgrounds and a diverse range of business, banking and professional expertise. The Board also has a well-balanced composition of Executive Director, Non-executive Directors and Independent Non-executive Directors ("INEDs") to ensure independence and objectivity of the decisions as well as robustness and impartiality of the Board's oversight of the Management.

Following the passing of Mr. Hung-ching YUNG on 3 March 2022, the number of Directors is reduced to thirteen, comprising seven Non-executive Directors, one Executive Director and five INEDs whose biographical details are individually set out in the "Biographical Details of Directors and Management" section of this Annual Report.

The Bank has received from each of the INEDs an annual confirmation of his independence which has also been assessed in accordance with the guidelines set out in Rule 3.13 of the Listing Rules as well as the factors outlined in HKMA's circular on "Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong" issued on 14 December 2016. The Board considers that all INEDs continue to be independent of the Management and free of any relationship that could materially interfere with the exercise of their independent judgement.

Among the Non-executive Directors of the Bank, the late Mr. Hung-ching YUNG was the grandfather of Mr. John Con-sing YUNG. Save as aforesaid, there is no relationship (including financial, business, family or other material/relevant relationship(s)) among Board members.

The Bank has maintained on its website (www.shacombank.com.hk) an updated List of Directors showing their roles and functions and whether they are INEDs.

Appointment and Re-election of Directors

The Bank adopts a formal procedure for the appointment/re-appointment of Directors to the Board. The Board is empowered under the Bank's Articles of Association (the "AoA") to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Nomination and Remuneration Committee is responsible for reviewing any proposed appointment, mainly based on merits but also having due regard to the benefits of Board diversity, and making recommendation to the Board for consideration and approval. Pursuant to relevant requirements in the Banking Ordinance, consent from the HKMA for any new appointment is required and will also be sought.

Directors newly appointed by the Board during the year are subject to re-election by shareholders of the Bank at the first annual general meeting following their appointments. There is no specified term of appointment for Non-executive Directors as provided under code provision A.4.1 of the CG Code. However, the AoA stipulates that at each annual general meeting one-third of the Directors (excluding the Executive Director holding the office as Chief Executive) who have been longest in office since their last election shall retire and be eligible for re-election.

Board Process

The Board meets regularly to formulate objectives, strategies, business plans and annual budgets and to assess the Bank's performance, position and prospects throughout the year. All Directors have unfettered access to board papers and related materials which are provided in a timely manner. The Corporate Secretary keeps the minutes of Board meetings.

Schedule for regular Board and Committee meetings in each year is made available to all Directors before the end of the preceding year to facilitate their attendance. Directors have demonstrated strong commitment in attending meetings over the years. All Directors are also given opportunities to propose matters in the meeting agenda. During the year, the Board held five physical meetings and the important matters discussed at Board meetings for the year included, among other things:

- new 5-Year Plan for 2021-2025 and the half-yearly review of the implementation
- annual budget
- interim and annual financial statements, and the quarterly and half-year Consolidated Reporting Package of the Group for submission to the parent company, The Shanghai Commercial & Savings Bank, Ltd.
- appointment of Directors and members of the Board Committees
- establishment of the Sustainability Committee, a new specialized committee of the Board, to oversee the Bank's implementation of the Environmental, Social and Governance ("ESG") and Green and Sustainable Banking ("GSB") initiatives, and adoption of its Terms of Reference
- establishment of the Digital Transformation Committee, a new specialized committee of the Board under the Executive Committee, to formulate the overall digital transformation strategy of the Bank and oversee the execution, and adoption of its Terms of Reference
- report on board performance evaluation
- appointment and oversight of senior management, and assessment of management competence
- Risk Appetite Statement
- half-yearly summary report on stress tests and review of the impact analysis arising from the stressed circumstances
- revised Terms of Reference of the Board, Executive Committee, Audit Committee, Risk Committee, Nomination and Remuneration Committee and other senior management-level specialized committees
- various significant policies and plans including but not limited to, Code of Conduct, Corporate Governance Policy, Business Continuity Plan and its Policy, Capital Policy, Policy on Management Succession, Credit Risk Policy and its subsidiary policies, Counterparty Credit Risk Policy, Policy on Liquidity Risk Management, Products and Services Governance Policy, and etc.
- Internal Capital Adequacy Assessment Process
- portfolio limits on lending and matters relating to the Bank's loan portfolio
- Slavery and Human Trafficking Statement under the UK Modern Slavery Act 2015

To enable Board members to have a fair understanding and hence assessment of the Bank's performance, review of the main economic developments in Hong Kong is provided to Board members at each regular Board meeting in addition to regular financial and business reports.

The Bank has arranged directors and officers liability insurance cover to indemnify the Directors and other officers against any potential liability arising from the Bank's business activities to which such Directors and officers may be held liable.

Directors' Attendance Records

The attendance records of Directors at meetings held during the year ended 31 December 2021 are set out in the following table:

Directors	Number of meetings attended/held in 2021						
	Board	Executive Committee	Audit Committee	Nomination and Remuneration Committee(1)	Risk Committee	Sustainability Committee(2)	Annual General Meeting
Non-executive Directors							
Mr. Stephen Ching Yen LEE	5/5(C)	–	–	1/1	–	–	1/1
Mr. Hung-ching YUNG	4/5	10/12	–	2/2	–	–	1/1
Mr. CHEN Yih Pin	5/5	–	–	–	–	–	1/1
Madam DAI Lanfang(3)	3/3	9/9	–	–	–	–	1/1
Mr. JIN Yu	5/5	–	–	–	–	–	1/1
Mr. John Con-sing YUNG	5/5	–	4/4	–	–	2/2	1/1
Mr. Jafar Altaf AMIN(4)	4/5	1/1	–	–	–	–	1/1
Ms. Maria Pui Man KIANG	4/5	–	–	–	–	–	1/1
Mr. YE Jun(5)	2/2	3/3	–	–	–	–	N/A
Executive Director							
Mr. David Sek-chi KWOK	5/5(DC)	12/12(C)	–	–	–	2/2	1/1
Independent Non-executive Directors							
Dr. Richard LEE(6)	1/1	–	–	2/2	–	–	1/1
Mr. Johnson Mou Daid CHA	5/5	–	–	3/3(C)	4/4	–	1/1
Mr. Gordon Che Keung KWONG	5/5	–	4/4(C)	1/1	4/4	–	1/1
Mr. E. Michael FUNG	5/5	–	4/4	–	4/4(C)	–	1/1
Mr. Charles Chi Man MA	5/5	–	4/4	–	4/4	2/2(C)	1/1
Mr. Sunny Yiu-tong CHEUNG(7)	4/4	8/8	–	–	–	–	1/1

Notes:

1. The Nomination Committee and Remuneration Committee have been merged and renamed as Nomination and Remuneration Committee with effect from 21 April 2021, with Mr. Johnson CHA, Mr. H. C. YUNG and Mr. Gordon KWONG being the members.
2. The Sustainability Committee was established on 21 April 2021, with Mr. Charles MA, Mr. John YUNG and Mr. David KWOK appointed as members from amongst the Directors.
3. Madam DAI Lanfang resigned as a Non-executive Director and a member of the Executive Committee with effect from 29 September 2021.
4. Mr. Jafar Altaf AMIN ceased to be a member of the Executive Committee with effect from 15 January 2021.
5. Mr. YE Jun was appointed as a Non-executive Director and a member of the Executive Committee with effect from 29 September 2021.
6. Dr. Richard LEE retired as an Independent Non-executive Director with effect from the conclusion of the 2021 Annual General Meeting held on 21 April 2021.
7. Mr. Sunny Yiu-tong CHEUNG was appointed as an Independent Non-executive Director with effect from 15 March 2021 and a member of the Executive Committee with effect from 21 April 2021.
8. Chairmen of the Board and Board delegated Committees and Deputy Chairman of the Board are indicated by (C) and (DC) respectively.

Board Effectiveness

During the year ended 31 December 2021, the Board conducted an annual assessment by way of a board performance evaluation questionnaire, covering (1) Board composition and skills; (2) Strategic orientation and risk management; (3) Board Committees; (4) Corporate culture, management development and succession; (5) Board and Board Committees meetings; (6) Performance management; (7) Communication with management; (8) Communication with shareholders, and (9) Director's self-evaluation. The overall feedback was positive. The performance of individual board members was satisfactory, and all Directors were willing and able to commit sufficient time, attention and efforts to fulfil their responsibilities. Included also in the assessment is a forward-looking analysis of how the Board and the Board Committees could anticipate and shape the future of the Bank in light of the rapid changes in the market.

Induction and training for Directors

Each newly appointed Director receives an information package on the scope of duties and obligations to be observed by a Director. Further, to enable the Directors to have a proper understanding of the Bank's operations and business, their responsibilities under applicable laws and regulations as well as the development trends in the industry, the Bank arranges and provides trainings and timely information to Directors on corporate structure and profile, board composition, senior management profile, anti-money laundering, legal, regulatory and compliance updates, changes in accounting standards, and etc. Directors are also informed of and encouraged to attend outside talks, trainings and seminars organized by professional bodies at the Bank's expenses to enrich their knowledge in discharging their duties as a director. The training attendance records of the Directors for each year are maintained by the Corporate Secretary.

During the year of 2021, key areas of training received by Directors of the Bank to update and develop their skills and knowledge are summarized as follows:

	Training areas during the year 2021	
Directors	**Regulatory updates**	**Events/Seminars/ Conferences relevant to the Bank's business and corporate governance**
Non-executive Directors		
Mr. Stephen Ching Yen LEE	✓	✓
Mr. Hung-ching YUNG	✓	✓
Mr. CHEN Yih Pin	✓	✓
Mr. JIN Yu	✓	✓
Mr. John Con-sing YUNG	✓	✓
Mr. Jafar Altaf AMIN	✓	✓
Ms. Maria Pui Man KIANG	✓	✓
Mr. YE Jun	✓	✓
Executive Director		
Mr. David Sek-chi KWOK	✓	✓
Independent Non-executive Directors		
Mr. Johnson Mou Daid CHA	✓	✓
Mr. Gordon Che Keung KWONG	✓	✓
Mr. E. Michael FUNG	✓	✓
Mr. Charles Chi Man MA	✓	✓
Mr. Sunny Yiu-tong CHEUNG	✓	✓

Guiding principles on Board Diversity

The Bank recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced business, the Bank sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, board diversity is being considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of the Board diversity.

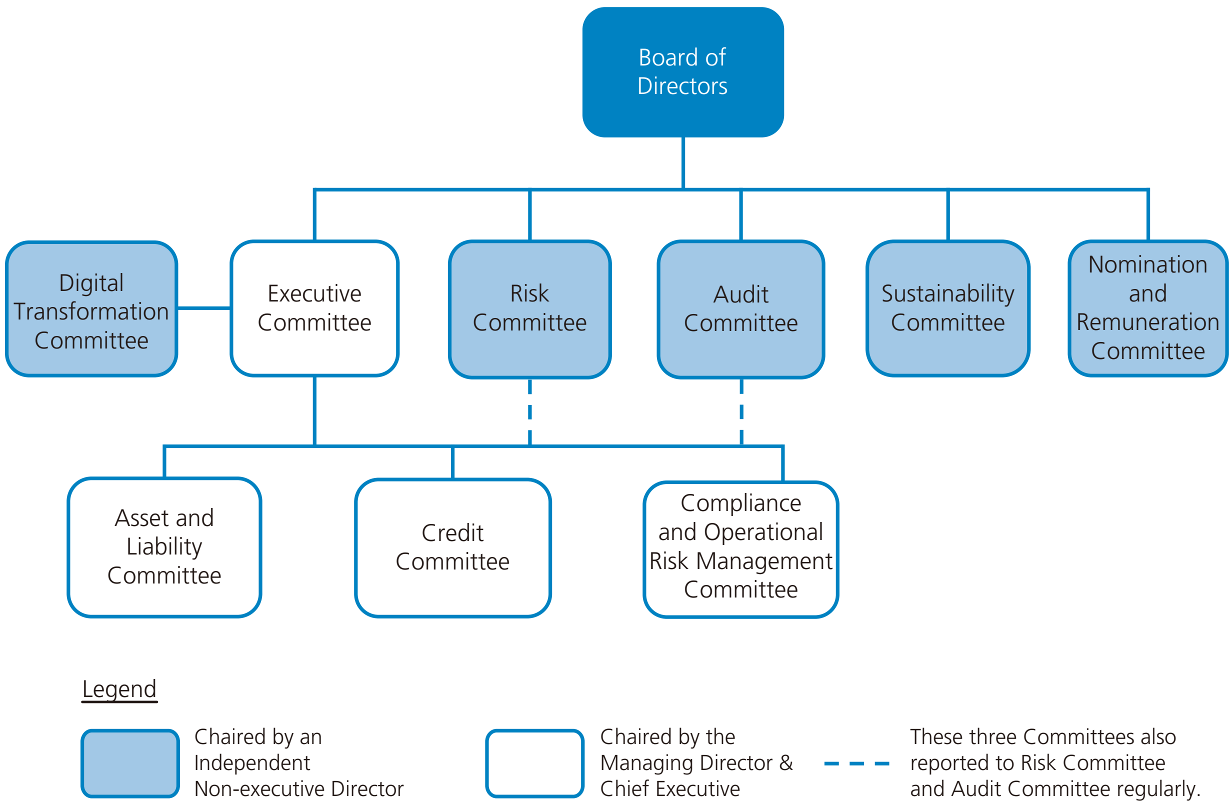
These guiding principles are not intended to, and do not, either enlarge or diminish the responsibilities of the Directors under the AoA and such other relevant laws, rules, regulations, codes, guidelines, practice notes and circulars, but to serve as reference for Directors to take appropriate actions to achieve the aims of Board diversity as outlined above. The Board will review and, where appropriate, revise from time to time the principles in light of experience, evolving standards of corporate governance and any other changing circumstances.

Delegation by the Board

The Board has established specialized committees, namely, Executive Committee (and its sub-committee, Digital Transformation Committee), Audit Committee, Nomination and Remuneration Committee, Risk Committee and Sustainability Committee, to assist it in carrying out its responsibilities.

The Board has also established senior management-level specialized committees, namely, Asset and Liability Committee, Credit Committee, and Compliance and Operational Risk Management Committee, to manage different areas of the business operations and risk management of the Bank.

Each of these Committees has specific written terms of reference setting out in details their authorities and responsibilities, and their meeting minutes are sent to all Directors.



Board Committees

Executive Committee

The Executive Committee operates as a general management committee under the delegated authority of the Board to oversee the management and day-to-day running of the Bank in accordance with its terms of reference and such other policies and directives as the Board may determine from time to time.

The Executive Committee provides regular updates to the Board on the business performance of the Bank by way of presenting monthly reports on financial performance and quarterly progress reports on budgets.

During the year, Mr. Sunny Yiu-tong CHEUNG and Mr. YE Jun were appointed as members of the Executive Committee with effect from 21 April 2021 and 29 September 2021 respectively, while Mr. Jafar Altaf AMIN and Madam DAI Lanfang ceased to be members with effect from 15 January 2021 and 29 September 2021 respectively. Following the passing of Mr. Hung-ching YUNG, Mr. John Con-sing YUNG was appointed as a member with effect from 3 March 2022. The Executive Committee currently has four members as named below:

- Mr. David Sek-chi KWOK (Executive Director) – Chairman;
- Mr. Sunny Yiu-tong CHEUNG (Independent Non-executive Director);
- Mr. YE Jun (Non-executive Director); and
- Mr. John Con-sing YUNG (Non-executive Director).

Digital Transformation Committee

In April 2021, the Board approved the establishment of the Digital Transformation Committee to oversee the formulation and execution of the Bank's digital transformation strategies. The Digital Transformation Committee provides regular updates to the Executive Committee.

The Board has appointed Mr. Sunny Yiu-tong CHEUNG, an Independent Non-executive Director, as the Chairman of the Digital Transformation Committee, and the members of this Committee are the Chief Risk Officer, Chief/Deputy Chief of Divisions or Head of Departments responsible for digital strategy, information technology & operations, retail banking, corporate banking and digital transformation of the Bank.

Audit Committee

The Audit Committee considers the nature and scope of audit reviews and reviews the Bank's financial statements, the findings of both internal and external auditors and the effectiveness of the internal control systems of the Bank. The Board has also delegated its corporate governance functions as set out in code provision D.3.1 of the CG Code to the Audit Committee. The Bank has made available on its website the prevailing Terms of Reference of the Audit Committee.

With the Chairman of the Audit Committee possessing appropriate accounting qualifications as well as related financial management expertise, the Committee currently has four members as named below:

- Mr. Gordon Che-keung KWONG (Independent Non-executive Director) – Chairman;
- Mr. John Con-sing YUNG (Non-executive Director);
- Mr. E. Michael FUNG (Independent Non-executive Director); and
- Mr. Charles Chi-man MA (Independent Non-executive Director).

In the course of performing its roles and functions, the Audit Committee works closely with the auditors and the Bank's executives. As such, in addition to the members of the Audit Committee, regular attendees at the Audit Committee meetings include the Chief Executive, Deputy Chief Executive, Chief Risk Officer, Chief Financial Controller, Chief Auditor, Chief of Legal & Compliance and representatives from the Bank's external auditor. The Audit Committee also met with the representatives of the Bank's external auditor in the absence of the Senior Management in accordance with its Terms of Reference.

The following is a summary of the major tasks performed by the Audit Committee for the year:

- Review and making recommendations to the Board for approval of the Terms of Reference of the Audit Committee
- Review and making recommendations to the Board for approval of (i) the 2020 audited financial statements of the Group and the 2021 interim financial disclosure statement, and (ii) the quarterly and half-year Consolidated Reporting Package of the Group for submission to the parent company, The Shanghai Commercial & Savings Bank, Ltd.
- Review of the remuneration and terms of engagement of the external auditor and making recommendations to the Board for approval of their re-appointment
- Review of the adequacy of resources, staff qualifications, experience and training programmes of the financial reporting function
- Review of the adequacy of resources, effectiveness and the annual budget of the Internal Audit function and the performance of the Chief Auditor
- Review and approval of the Policy on Non-audit Services, review of the non-audit-related services provided by the external auditor and other professional firms on a semi-annual basis
- Review of the independence, objectivity and effectiveness of the audit process of the external auditor and discussion of their audit work
- Review and approval of the Internal Audit Charter and Internal Audit Policy and Procedures, and the internal audit plan
- Review of the internal audit report, including findings and recommendations
- Review and approval of the compliance plan for the year 2021
- Review of compliance reports on a regular basis
- Review of the revised Whistleblowing Policy, and the annual report of whistleblowing cases, if any
- Review of the summary report from the Legal and Compliance Division of the Group on the HKMA examinations and regulatory concerns as well as management's actions in implementing the HKMA's recommendations
- Review of the Group's financial and accounting policies and practices and making recommendations to the Board for approval of, including but not limited to, Corporate Governance Policy and Policy on Presentation and Disclosures for Financial Statements and Regulatory Disclosure
- Review of the highlights of major new accounting and financial reporting standards and guidance issued by the Hong Kong Institute of Certified Public Accountants as well as the impact to the Group on their adoption

Nomination and Remuneration Committee

In April 2021, the Board reviewed and approved the merger of Nomination Committee and Remuneration Committee and renamed as Nomination and Remuneration Committee, as well as the membership composition, to streamline the structure of Board-level specialized committees.

The Nomination and Remuneration Committee considers the structure, size and composition of the Board and is responsible for recommending to the Board on matters relevant to appointments, re-appointments, removal and succession planning of Directors and Senior Management in accordance with the Bank's relevant policies, guidelines and business strategies. This Committee also oversees the implementation of a sound remuneration policy including recommending to the Board remuneration of the Directors and Senior Management of the Bank, assisted by independent professional consultants where appropriate. The Bank has made available on its website the prevailing Terms of Reference of the Nomination and Remuneration Committee.

The remuneration policy of the Group is reviewed by the Nomination and Remuneration Committee and approved by the Board. No Director or any of their associates is involved in deciding his/her own remuneration, and details of Directors' emoluments are set out in Note 13 to the Consolidated Financial Statements. Details of remuneration for Senior Management and key personnel of the Group during the year are disclosed in Note 14 of "Regulatory Disclosures" of this Annual Report in accordance with Banking (Disclosure) Rules with the exception of details of remuneration by band for the Senior Management. The Board currently considers such disclosure by band inappropriate for the time being but subject to review whenever necessary.

Following the passing of Mr. Hung-ching YUNG, Mr. Stephen Ching Yen LEE was appointed as a member with effect from 3 March 2022. The Nomination and Remuneration Committee currently has three members as named below:

- Mr. Johnson Mou Daid CHA (Independent Non-executive Director) – Chairman;
- Mr. Gordon Che Keung KWONG (Independent Non-executive Director); and
- Mr. Stephen Ching Yen LEE (Non-executive Director).

In addition to the members of the Nomination and Remuneration Committee, the Bank's Chief Executive and Chief of Human Resources are regular attendees at the Committee meetings.

The following is a summary of the major tasks performed by the Nomination and Remuneration Committee for the year:

- Review and making recommendations to the Board for approval of the Terms of Reference of the Nomination and Remuneration Committee, Policy on Management Succession, and Remuneration Policy
- Review of the structure, size and composition of the Board and its specialized committees
- Review and making recommendations to the Board for approval of nomination of appointment/re-appointment of Directors and Board Committees members
- Review the report on board performance evaluation
- Review and making recommendations to the Board for approval of the senior management organization structure, appointment of and promotion to senior management, and the succession plan of the Bank
- Review and making recommendations to the Board for approval of the remuneration packages of Senior Management and key personnel of the Bank
- Review the independent review report on the Bank's remuneration system
- Review of culture-related matters of the Bank

Risk Committee

The Risk Committee oversees and reviews the Bank's high-level risk related matters and makes recommendations to the Board on risk management strategies as well as the risk tolerance and risk appetite of the Bank. The Bank has made available on its website the prevailing Terms of Reference of the Risk Committee.

The Risk Committee currently has four members as named below:

- Mr. E. Michael FUNG (Independent Non-executive Director) – Chairman;
- Mr. Johnson Mou Daid CHA (Independent Non-executive Director);
- Mr. Gordon Che Keung KWONG (Independent Non-executive Director); and
- Mr. Charles Chi Man MA (Independent Non-executive Director).

In addition to the members of the Risk Committee, regular attendees at the Risk Committee meetings include the Chief Executive, Deputy Chief Executive, Chief Risk Officer, Chief of Legal & Compliance and Chief Financial Controller. The Risk Committee also met with the Chief Risk Officer in the absence of the Executive Director and Senior Management in accordance with its Terms of Reference.

The following is a summary of the major tasks performed by the Risk Committee for the year:

- Review and making recommendations to the Board for approval of the Terms of Reference of the Risk Committee, Asset and Liability Committee, Credit Committee and Compliance and Operational Risk Management Committee
- Review of the quarterly report on risk exposures and risk management activities of the Bank
- Review of the Bank's climate risk stress test results
- Review and making recommendations to the Board for approval of the Risk Appetite Statement, Internal Capital Adequacy Assessment Process ("ICAAP") and Slavery and Human Trafficking Statement under the UK Modern Slavery Act 2015
- Review and making recommendations to the Board for approval of the high-level risk-related policies of the Bank including but not limited to, Business Continuity Planning Policy, Capital Policy, Policy on Liquidity Risk Management, Products and Services Governance Policy
- Review and approval of the Compliance Policy, Customer Acceptance and Anti-money Laundering and Counter-terrorist Financing Policy, Sanctions Policy, Information Security Policy, Operational Risk Management Policy, ICAAP Stress-testing Methodology and Stress-testing Policy, and etc.
- Review and approval of the internal capital targets and internal leverage ratio targets of the Group for 2022 and beyond
- Review of reports on anti-money laundering related matters
- Review of reports on the independent assessment of the Bank's information and technology system related to its emerging and existing e-banking services

Sustainability Committee

In April 2021, the Board approved the establishment of the Sustainability Committee to oversee the development and implementation of the Bank's sustainability strategy and to make recommendations on ESG related matters to ensure sustainable growth of the Bank. The Bank has made available on its website the prevailing Terms of Reference of the Sustainability Committee.

The Sustainability Committee currently has four members as named below:

- Mr. Charles Chi Man MA (Independent Non-executive Director) – Chairman;
- Mr. John Con-sing YUNG (Non-executive Director);
- Mr. David Sek-chi KWOK (Executive Director); and
- Mr. Mong-ting CHONG (Deputy Chief Executive).

The Sustainability Committee has appointed a Sustainability Working Group comprising of senior executives of the Bank to carry out tasks as defined by the Committee. Members of the Sustainability Working Group are regular attendees at the Committee meetings.

The following is a summary of the major tasks performed by the Sustainability Committee for the year:

- Review and making recommendations to the Board for approval of the Terms of Reference of the Sustainability Committee
- Review and making recommendations to the Board for approval of the Materiality Assessment results
- Review of the half-year report on the progress of the Bank's sustainability initiatives

Senior management-level Specialized Committees

Asset and Liability Committee

The Asset and Liability Committee meets at least monthly to deal with issues related to the market, interest rate, liquidity and counterparty credit risk of the Bank and reports directly to the Executive Committee and Risk Committee.

The members of the Asset and Liability Committee are the Chief Executive (Chairman), Deputy Chief Executive(s), Chief Risk Officer and Division Chiefs/Heads responsible for compliance, risk management, finance, treasury, corporate banking, retail banking, human resources, branches operations, and compliance and administration of the Bank.

Credit Committee

The Credit Committee meets at least monthly to deal with all credit risk-related issues of the Group such as establishing credit policies, monitoring loan portfolio quality, ensuring compliance with statutory and internal lending limits, evaluating credit applications, making credit decisions, and etc. The Credit Committee reports directly to the Executive Committee and Risk Committee.

The members of the Credit Committee are the Chief Executive (Chairman), Deputy Chief Executive(s), Chief Risk Officer, Head of Credit, Head of Credit Appraisal, Head of Credit Control, Head of Credit Review & Policy and the Division Chiefs/Heads responsible for treasury, corporate banking, and retail banking of the Bank.

- **Compliance and Operational Risk Management Committee**

  The Compliance and Operational Risk Management Committee meets at least monthly to deal with major aspects of the Bank's operational, legal, compliance and regulatory, reputation and conduct, technology and business continuity risks and to define the proper risk strategies within the Bank's overall risk appetite and business objectives as well as the framework of the Bank's policies and the Terms of Reference of this Committee. The Compliance and Operational Risk Management Committee reports directly to the Executive Committee and Risk Committee.

  The members of the Compliance and Operational Risk Management Committee are the Chief Executive (Chairman), Deputy Chief Executive(s), Chief Risk Officer and Division Chiefs/Heads responsible for legal, compliance, risk management, treasury, information technology, human resources, retail banking, corporate banking, branches operations, compliance and administration, operations centres, and bank premises of the Bank.

Directors' Securities Transactions

The Board has not adopted code provision A.6.4 of the CG Code in relation to the setting up of written guidelines for Directors and relevant employees in respect of their dealings in the Bank's securities as the Bank's shares are not publicly listed.

Accountability and Audit

Directors' Responsibility in relation to Financial Reporting

The Directors are responsible for presenting a balanced, clear and comprehensive assessment of the Bank's performance, position and prospects. As such, the Management assists the Directors to discharge their duties through the submission of monthly financial and business updates of the Bank. Representatives of the Senior Management of core business lines and control functions are invited to attend Board/Board Committee meetings as appropriate to provide sufficient explanation and information, critical insights and analyses of the Bank's affairs relating to their areas of expertise to the Directors.

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual and interim results are reviewed by the Audit Committee and announced in a timely manner. As at 31 December 2021, the Directors of the Bank were not aware of any material uncertainties relating to events which may cast significant doubt upon the Group's ability to continue as a going concern. Accordingly, the Group's financial statements have been prepared on a going concern basis.

The statement of the Bank's external auditor concerning its reporting responsibilities on the Bank's consolidated financial statements and the key audit matters identified during the course of the audit are set out in the Independent Auditor's Report attached to the Bank's 2021 Consolidated Financial Statements.

Risk Management and Internal Controls

The Board is responsible for overseeing risk management and internal control systems including financial, operational and compliance controls and reviewing their effectiveness to achieve business objectives and safeguard shareholders' interests and the Group's assets. Management has to provide a confirmation to the Board on the effectiveness of these systems.

Well-established organizational structure and comprehensive policies and procedures are in place for ensuring effective checks and balances; managing possible gaps in achieving business objectives; safeguarding assets against unauthorized use or disposition; maintaining proper accounting records and ensuring the reliability of financial information used within the business or for publication. The procedures, providing reasonable but not absolute assurance against material errors, losses or fraud, are designed to ensure compliance with applicable laws, rules and regulations.

The Group has set up specialized committees and related departments responsible for identifying, assessing and managing key risks facing the Bank including credit risk, market risk, liquidity risk, operational risk, interest rate risk, strategic risk, legal, regulatory and compliance risk, technology risk, reputational risk and climate-related risks through implementing appropriate policies and procedures. Periodic reports on risk exposure and risk management activities are submitted to the Executive Committee and Risk Committee through the Asset and Liability Committee, Credit Committee, and Compliance and Operational Risk Management Committee and ultimately to the Board for monitoring the risk management and internal control systems. The Group's risk management strategies, risk tolerance and risk appetite are reviewed by the Risk Committee and approved by the Board.

The Audit Committee reviews the external auditor's reports in connection with the annual audit and the recommendations on internal control arising therefrom, as well as their report on review of interim financial information.

In view of the fact that banking is one of the highly regulated industries in Hong Kong and is subject to various laws and regulations including but not limited to the Banking Ordinance and the supervisory policies and procedures set forth in the Supervisory Policy Manual, Anti-Money Laundering and Counter-Terrorist Financing Ordinance, Personal Data (Privacy) Ordinance, Foreign Account Tax Compliance Act, UK Modern Slavery Act 2015, Common Reporting Standard on Automatic Exchange of Financial Account Information in Tax Matters, the Group has put in place a robust control framework to ensure compliance with applicable laws, rules, regulations and supervisory standards. Latest regulatory requirements are promptly brought to the attention of responsible units with revised guidelines and advices delivered for their implementation and strict adherence. Key compliance alerts and information are regularly reported to the Senior Management and the Board. Sufficient resources are also made available to ensure proper legal and regulatory compliance.

Whistleblowing Policy is established for employees to raise their genuine concerns in good faith about malpractice, impropriety, misconduct or unethical activity that they are aware of and which could compromise the interests of the customers, staff, shareholders, the public and/or the Group's image and reputation. All information received is treated confidentially and the identity and interests of all whistle-blowers are protected.

Internal Audit

The Internal Audit function plays an important role in reinforcing the "Three Lines of Defence" risk management structure of the Bank. As the third line of defence, the Internal Audit function provides independent assurance to the Audit Committee and the Board as to whether the risk management and internal control systems of the Group are adequate and effective. It has unfettered access to Senior Management for seeking information and explanation on audit matters. The Chief Auditor of the Bank who leads a team with professional expertise reports directly to the Audit Committee.

The Internal Audit function adopts a risk-based approach in its auditing activities. It sets its internal audit plan annually for approval of the Audit Committee based on risk assessment methodology which assists in prioritizing audit resources and focusing on higher risk areas. The review results are reported regularly to the Audit Committee. The Internal Audit function also verifies the rectification and implementation effectiveness taken by the Group on the recommendations made by external auditors and regulatory bodies.

External Auditor

The Group's external auditor is PricewaterhouseCoopers. The Audit Committee is primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, including their remuneration and terms of engagement. The Audit Committee also regularly reviews and monitors the independence and objectivity as well as the effectiveness of the audit process of the external auditor.

To safeguard the independence of the external auditor, the Bank has established the Policy on Non-audit Services, setting out the criteria for appointing the external auditor to provide non-audit-related services.

The following table shows remuneration paid and payable to the external auditor:

(HK$'000)	2021	2020
Audit services	**10,692**	9,879
Non-audit-related services (Note)	**6,870**	4,146
	17,562	14,025

Note: Non-audit-related services include quarterly reviews under Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", tax and independent assessments on ad hoc projects for regulatory purposes.

The Board, on recommendation by the Audit Committee, will propose that PricewaterhouseCoopers be re-appointed as auditor of the Group at the AGM of the Bank to be held on 22 April 2022.

Company Secretary

The Company Secretary is an employee of the Bank who provides support to the Board by ensuring timely information is provided; Board procedures are followed; and the AoA, relevant rules and regulations including SPM CG-1 and the CG Code are complied with. The Company Secretary also advises the Board on corporate governance matters and facilitates provision of the induction programme to new Directors and continuous professional development to existing Directors.

During the year, the Company Secretary undertook over 15 hours of relevant professional training.

Employees

As of 31 December 2021, the total headcount of the Group was 1,872.

The Bank treasures staff members as the most valuable asset to its success. As a caring employer, the Bank strives to build an engaged workforce through enhancing benefit coverages to the staff and their family members and launching a series of engagement initiatives as well as social and recreational activities for a balanced work life. The Bank is also committed to providing a safe and healthy work environment with on-going communications and training to raise their awareness on occupational safety and health. During the pandemic, the Bank has closely assessed threats/risks in response to the latest situation and timely introduced a range of precautionary measures, including flexible work arrangements, shortened business and working hours, split operations, providing health and hygiene products, and etc. in order to minimize the risk of contracting and spreading the disease at workplace and in the community.

The Bank takes definitive steps to develop staff members and invest in human capacity by enhancing their professional competence for discharging their duties along different stages of their banking career with enriched learning curriculums, education subsidies and scholarship offered. To cope with the changing landscape in the banking industry and align with corporate strategic focuses, the Bank builds and strengthens staff capabilities through different means.

Shareholders' Rights

Each shareholder currently has director representation on the Board through which effective communication with shareholders regarding the business and affairs of the Bank is maintained. Shareholders are well informed of their rights to call an extraordinary general meeting of the Bank, the procedures by which enquiries may be presented to the Board and proposals may be put forward at shareholders' meetings as stipulated under Sections 566 to 568 and 615 of the Companies Ordinance. The Corporate Secretary acts as the contact to enable these enquiries or proposals to be properly raised.

The Chairman of the Board is committed to maintaining constant communication with the shareholders to ensure that they have fair and timely access to the Bank's information. All announcements, regulatory disclosures, annual/interim reports and press releases of the Bank are available on the corporate website (www.shacombank.com.hk). Press releases relating to half-yearly and annual financial results of the Bank are also disseminated to major media channels for public disclosure. As the Bank is a non-listed public company and the representatives of the four shareholders meet and communicate regularly, the Board considers it unnecessary for the time being to set up a shareholders' communication policy as stipulated in code provision E.1.4 of the CG Code but the matter would be evaluated whenever necessary.

Hong Kong, 9 March 2022

Opinion

What we have audited

The consolidated financial statements of Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (the "Group"), which are set out on pages 54 to 142, comprise:

– the consolidated statement of financial position as at 31 December 2021;

– the consolidated statement of profit or loss for the year then ended;

– the consolidated statement of comprehensive income for the year then ended;

– the consolidated statement of changes in equity for the year then ended;

– the consolidated statement of cash flows for the year then ended; and

– the notes to the consolidated financial statements, which include significant accounting policies and other explanatory notes.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matter identified in our audit is related to the measurement of expected credit losses of loans and advances to customers.

Key Audit Matters (Continued)

Measurement of expected credit losses ("ECL") of loans and advances to customers

As at 31 December 2021, the Group recorded loan impairment allowances of HK$516 million, with HK$289 million as stage 1 impairment allowances, HK$174 million as stage 2 impairment allowances and HK$53 million as stage 3 impairment allowances in respect of the total gross loan balance of HK$96,422 million. The details of impairment allowances of loans and advances to customers are elaborated in Notes 3.1 and 18.

The Group established governance processes and controls for the measurement of ECL. Management had assessed the overall ECL methodology and determined the methodology remains appropriate since initial adoption. Management continues to determine the staging for its financial assets based on changes in credit quality since initial recognition by identifying Significant Increase in Credit Risk ("SICR") and default events. ECL is measured by the calculation model depending on the stage of the financial assets, which incorporated forward-looking key macroeconomic variables. Management also concluded that post model adjustments, i.e., the management overlay, are required to address certain limitation in its ECL model methodology, including catering potential credit quality deterioration of vulnerable sectors as a result of the ongoing COVID-19 pandemic.

How our audit addressed the Key Audit Matter

We obtained an understanding of the management's internal control and processes behind ECL and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes, and susceptibility to management bias or fraud.

Our audit focused on the measurement of ECL of loans and advances to customers due to significant judgements applied by management. Specifically we focused on the following:

(1) ECL methodology and it remains appropriate;

(2) Staging of the financial assets, including management's determination of SICR and default;

(3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; and

(4) Management overlay adjustments due to model constraints or data limitation not covered in the models.

Key Audit Matters (Continued)

How our audit addressed the Key Audit Matter (Continued)

We obtained an understanding, evaluated and tested the controls that management has established to support their measurement of ECL. Furthermore we performed substantive audit procedures to assess the significant judgements, assumptions and disclosures. Our key procedures are set out below:

– We observed and inspected evidence of management governance and ongoing monitoring over ECL models. We further assessed major ECL model methodologies and assumptions used for stage 1 and 2 ECL calculation, including reasonableness of the portfolio segmentation and key parameters estimation which remains appropriate;

– We observed and inspected evidence of Credit Committee's oversight and regular monitoring of the overall credit quality including internal credit rating assignment. In addition we observed and inspected regular post draw-down monitoring of credit quality by monitoring units which are independent from the loan initiation units, including identification of SICR and defaults. We tested on a sample basis, management's post draw-down credit reviews and assessed the appropriateness of management's identification of SICR or defaults by considering financial information and non-financial information of the borrowers, relevant external evidence and other factors. Our samples included the results of the thematic portfolio analysis performed by management in response to changes in external market environments over the credit quality of certain loan portfolios;

– Inspected evidence of regular review and approval of key management judgements including forward-looking and management overlay adjustments. Additionally, we evaluated and challenged management's forward-looking measurement, including management’s analysis of their selection of economic indicators, economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators, and performed sensitivity analysis on the probability weightings. We assessed the reasonableness of management's selection of uncertain factors and examined the accuracy of the relevant mathematical calculations;

– We tested, on a sample basis, the ECL calculation of stage 3 loans by challenging management's assumptions in deriving the future cashflows based on borrowers' circumstances, objective evidence of inputs for impairment calculation (including valuation of collateral and macroeconomic variable estimates) and our industry knowledge;

– We assessed the adequacy of the disclosures related to ECL of loans and advances to customers in the Annual Report 2021 in the context of the applicable financial reporting framework.

Based on the results of the above testing, we considered that management’s judgements and assumptions applied in determining the ECL of loans and advances to customers were supportable by the evidence obtained and procedures performed.

Other Information

The Directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The Directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

– Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ms. NG Wai Ying.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in HK dollar thousands unless otherwise stated)

		Year ended 31 December	
	Note	2021	2020
Interest income	6	4,756,976	5,679,681
Interest expense	6	(1,104,411)	(2,128,022)
Net interest income		3,652,565	3,551,659
Fee and commission income	7	840,187	879,829
Fee and commission expense	7	(53,630)	(56,923)
Net fee and commission income	7	786,557	822,906
Net trading income	8	300,323	206,951
Net gains from disposal of investment securities at fair value through other comprehensive income		105,200	131,656
Dividend income from investment securities at fair value through other comprehensive income		217,705	196,954
Other operating income	9	133,690	148,295
Net earned insurance premium	10	37,815	43,592
Net insurance claims incurred and movement in policyholders' liabilities	10	(25,957)	(32,058)
Operating expenses	11	(1,696,656)	(1,621,139)
Credit impairment losses	12	(29,410)	(125,440)
Operating profit		3,481,832	3,323,376
Share of net profits of associates and joint venture	25	61,393	45,609
Profit before income tax		3,543,225	3,368,985
Income tax expense	14	(637,595)	(626,938)
Profit for the year		2,905,630	2,742,047
Attributable to:			
Equity holders of the Bank		2,900,088	2,736,368
Non-controlling interests		5,542	5,679
		2,905,630	2,742,047

The notes on pages 60 to 142 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Year ended 31 December	
	2021	2020
Profit for the year	2,905,630	2,742,047
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation difference arising from overseas operations	78,583	118,057
Investment securities at fair value through other comprehensive income		
– Changes in fair value	(727,767)	715,324
– Change in credit impairment losses recognised in profit or loss	6,943	4,509
– Fair value changes transferred to profit or loss on disposal	(105,200)	(131,656)
– Deferred income tax	137,440	(96,305)
Share of reserves of associates and joint venture	(9,173)	6,343
Items that will not be reclassified to profit or loss		
Equity investments at fair value through other comprehensive income		
– Changes in fair value	(242,083)	(550,754)
– Deferred income tax	(3,929)	3,450
Share of reserves of associates and joint venture	(396)	–
Other comprehensive income for the year, net of tax	(865,582)	68,968
Total comprehensive income for the year	2,040,048	2,811,015
Attributable to:		
Equity holders of the Bank	2,034,506	2,805,349
Non-controlling interests	5,542	5,666
Total comprehensive income for the year	2,040,048	2,811,015

The notes on pages 60 to 142 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December 2021	2020
ASSETS			
Cash and balances with banks	16	30,685,587	29,995,254
Placements with banks	17	15,478,679	9,234,097
Loans and advances to customers	18	95,906,226	101,247,939
Financial assets at fair value through profit or loss	19	2,103,933	2,198,751
Derivative financial instruments	20	317,330	842,146
Investment securities at fair value through other comprehensive income	21	81,438,993	75,689,043
Investment securities at amortised cost	22	1,573,635	344,670
Properties for sale	23	683,924	591,418
Investments in associates and joint venture	25	466,829	443,480
Properties and equipment	26	2,550,277	2,657,156
Investment properties	27	1,002,672	1,010,526
Deferred income tax assets	32	55,610	27,668
Other assets	28	1,669,618	2,450,000
TOTAL ASSETS		233,933,313	226,732,148
LIABILITIES			
Deposits and balances from banks		9,032,550	7,840,334
Deposits from customers	29	183,587,245	177,796,939
Derivative financial instruments	20	251,085	924,669
Subordinated debts	30	4,269,682	4,241,480
Other liabilities	31	2,426,108	3,206,269
Current income tax liabilities		140,035	117,787
Deferred income tax liabilities	32	5,241	109,871
TOTAL LIABILITIES		199,711,946	194,237,349
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS			
Share capital	33	2,000,000	2,000,000
Retained earnings		21,608,831	18,977,170
Reserves	34	10,515,909	11,426,064
		34,124,740	32,403,234
Non-controlling interests in equity		96,627	91,565
TOTAL EQUITY		34,221,367	32,494,799
TOTAL EQUITY AND LIABILITIES		233,933,313	226,732,148

Approved and authorised for issue by the Board of Directors on 9 March 2022.

Stephen Ching Yen LEE
Chairman

John Con-sing YUNG
Director

Gordon Che Keung KWONG
Director

David Sek-chi KWOK
Managing Director & Chief Executive

The notes on pages 60 to 142 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Attributable to equity holders			Non-controlling interests	Total equity
	Note	Share capital	Reserves	Retained earnings (including proposed dividends)		
As at 1 January 2020		2,000,000	11,378,917	17,158,968	86,379	30,624,264
Profit for the year		–	–	2,736,368	5,679	2,742,047
Other comprehensive income net of tax		–	47,147	21,834	(13)	68,968
Net change in fair value of investment securities at fair value through other comprehensive income	34	–	(55,419)	–	(13)	(55,432)
Currency translation difference arising from overseas operations	34	–	96,223	21,834	–	118,057
Share of reserves of associates and joint venture	34	–	6,343	–	–	6,343
Total comprehensive income		–	47,147	2,758,202	5,666	2,811,015
Payment of dividend relating to 2019		–	–	(940,000)	(480)	(940,480)
As at 31 December 2020 and 1 January 2021		**2,000,000**	**11,426,064**	**18,977,170**	**91,565**	**32,494,799**
Profit for the year		**–**	**–**	**2,900,088**	**5,542**	**2,905,630**
Other comprehensive income net of tax		**–**	**(910,155)**	**44,573**	**–**	**(865,582)**
Net change in fair value of investment securities at fair value through other comprehensive income	34	**–**	**(934,596)**	**–**	**–**	**(934,596)**
Currency translation difference arising from overseas operations	34	**–**	**34,010**	**44,573**	**–**	**78,583**
Share of reserves of associates and joint venture	34	**–**	**(9,569)**	**–**	**–**	**(9,569)**
Total comprehensive income		**–**	**(910,155)**	**2,944,661**	**5,542**	**2,040,048**
Payment of dividend relating to 2020		**–**	**–**	**(313,000)**	**(480)**	**(313,480)**
As at 31 December 2021		**2,000,000**	**10,515,909**	**21,608,831**	**96,627**	**34,221,367**

	Year ended 31 December	
	2021	2020
Proposed dividend included in retained earnings	**313,000**	313,000

The notes on pages 60 to 142 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2021	2020
Cash flows from operating activities			
Profit before income tax		3,543,225	3,368,985
Share of net profits of associates and joint venture	25	(61,393)	(45,609)
Credit impairment losses	12	29,410	125,440
Depreciation expenses		242,581	245,702
Net losses from disposal of equipment	9	5	176
Net gains from disposal of investment securities at fair value through other comprehensive income		(105,200)	(131,656)
Interest income on investment securities at amortised cost and fair value through other comprehensive income	6	(1,213,676)	(1,514,320)
Interest expense on subordinated debts	6	192,791	190,413
Interest expense on lease liabilities	6	4,076	8,702
Dividend income		(217,705)	(196,954)
Hong Kong profits tax paid		(297,367)	(735,123)
Overseas tax paid		(319,739)	(271,426)
Effect of exchange rate changes		(73,338)	280,233
Cash flows from operating activities before changes in operating assets and liabilities		1,723,670	1,324,563
Changes in operating assets and liabilities:			
– Net decrease/(increase) in balances with banks with original maturity beyond 3 months		1,335,624	(2,861,205)
– Net increase in placements with banks with original maturity beyond 3 months		(5,261,586)	(2,330,521)
– Net decrease/(increase) in financial assets at fair value through profit or loss		94,818	(317,726)
– Net (increase)/decrease in derivative financial instruments		(148,768)	75,013
– Net decrease/(increase) in loans and advances to customers		5,689,432	(2,590,103)
– Net increase in right-of-use assets		(28,313)	(97,180)
– Net decrease/(increase) in other assets		826,289	(657,007)
– Net increase/(decrease) in deposits and balances from banks		1,127,601	(3,837,276)
– Net increase in deposits from customers		5,289,660	4,405,644
– Net increase in lease liabilities		27,406	97,405
– Net (decrease)/increase in other liabilities		(665,501)	393,680
Net cash generated from/(used in) operating activities		10,010,332	(6,394,713)

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2021	2020
Cash flows from investing activities			
Interest received on investment securities at amortised cost and fair value through other comprehensive income		1,292,676	1,504,894
Dividends received on investment securities at fair value through other comprehensive income		217,705	196,954
Dividends received from associates and joint venture	25	28,475	26,135
Purchases of properties and equipment		(98,221)	(87,411)
Additions of investment properties	27	(1,040)	(2,272)
Additions of properties for sale		(120,194)	(141,956)
Proceeds from sale of equipment		17	172
Purchases of investment securities at amortised cost and fair value through other comprehensive income		(64,685,360)	(83,279,631)
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income		56,012,427	74,910,289
Proceeds from redemption of investment securities at amortised cost		342,200	2,469,019
Net cash used in investing activities		(7,011,315)	(4,403,807)
Cash flows from financing activities			
Interest paid on subordinated debts		(188,924)	(189,212)
Payment of lease liabilities		(119,146)	(128,429)
Dividend paid to equity holders		(313,000)	(940,000)
Dividend paid to non-controlling interests		(480)	(480)
Net cash used in financing activities		(621,550)	(1,258,121)
Net increase/(decrease) in cash and cash equivalents		2,377,467	(12,056,641)
Cash and cash equivalents at beginning of the year		27,999,639	39,812,613
Effect of exchange rate changes on cash and cash equivalents		(34,439)	243,667
Cash and cash equivalents at end of the year		30,342,667	27,999,639
Represented by:			
Cash and balances with banks with less than 3 months' original maturity	16	28,428,064	26,401,234
Placements with banks with less than 3 months' original maturity	17	1,914,603	1,098,403
Debt securities – Exchange Fund Bills with less than 3 months' original maturity		–	500,002
		30,342,667	27,999,639
Cash flows from operating, investing and financing activities included:			
Interest received		4,891,232	5,773,296
Interest paid		(993,595)	(2,272,843)

The notes on pages 60 to 142 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together, the "Group") are engaged in the provision of banking and related financial services in Hong Kong, the United States, the United Kingdom and the People's Republic of China.

The Bank is a financial institution incorporated in Hong Kong. The address of its registered office is Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong.

The ultimate holding company is The Shanghai Commercial & Savings Bank, Ltd., which is incorporated in the Republic of China (Taiwan).

These consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), unless otherwise stated and were approved for issue by the Board of Directors on 9 March 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment securities at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Group's accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group for the year ended 31 December 2021

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 - Interest Rate Benchmark Reform Phase 2	1 January 2021
HKFRS 16 (Amendments) - Covid-19 Related Rent Concessions	1 April 2021

The adoption of the above new and amended standards does not have significant impact to the financial statements of the Group.

(All amounts in HK dollar thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group for the year ended 31 December 2021 (Continued)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 - Interest Rate Benchmark Reform Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 - Interest Rate Benchmark Reform Phase 2 are effective for the accounting periods beginning on or after 1 January 2021. These amendments address the issues that might affect financial reporting when an entity replaces an interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform. The amendments complement those issued in November 2019 and provide a number of reliefs and additional disclosures. The key reliefs are as follows:

– **Changes to contractual cash flows.** An entity will not have to derecognise or adjust the carrying amount of financial instruments for changes that are direct consequence of the reform and occur on an economically equivalent basis, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate.

– **Hedge accounting.** The hedge accounting reliefs allow most hedge relationships that are directly affected by the reform to continue. For the year 2021, the Group did not enter into any accounting hedge transaction.

The amendments have been applied retrospectively without restating comparative information. For details of the interest rate benchmark reform transition, please refer to Note 3.7.

(b) Amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

	Effective for accounting periods beginning on or after
Amendments to HKAS 37 – Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS – Annual Improvement to HKFRS Standards 2018 - 2020	1 January 2022
HKFRS 17 – Insurance Contracts	1 January 2023
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a single transaction	1 January 2023

The Hong Kong Institute of Certified Public Accountants has issued a few amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these consolidated financial statements. The key new standard which may be relevant to the Group is HKFRS 17 "Insurance Contracts".

HKFRS 17 "Insurance contracts" is effective for the accounting periods beginning on or after 1 January 2023. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard and to replace the HKFRS 4 "Insurance contracts". The objective of HKFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. HKFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. The general model under HKFRS 17 requires an entity to measure an insurance contract at initial recognition at the total of the fulfilment cash flows and the contractual service margin. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. The Group is in the process of assessing the financial and disclosure impact on the adoption of the standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31 December 2021.

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement and have right to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method, and are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in an associate or a joint venture equals or exceeds its interests in the associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

When the Group transacts with its associates or joint ventures, profits and losses resulting from such transactions are recognised in the Group's consolidated financial statements only to the extent of interests in the associates or joint ventures that are not related to the Group. Unrealised losses arising from the transactions between the Group and the associates and joint ventures are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

All foreign exchange gains and losses recognised in the statement of profit or loss are presented net in the statement of profit or loss within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as fair value through other comprehensive income ("FVOCI"), a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss ("FVTPL"), are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as FVOCI investments, are included in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation (Continued)

(c) Group companies and overseas branches

The results and financial positions of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

– Income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are taken to other comprehensive income. When a foreign operation is disposed of, or partially disposed of, such exchange differences that were recorded in equity are recognised in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Fee and commission income and expense

Fee and commission income is recognised when the service has been provided. Loan fees for servicing a loan are recognised as fee income. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually over the tenor of the contract.

2.5 Dividend income

Dividends are recognised in the statement of profit or loss when the entity's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial assets, financial liabilities, interest income and expense

Measurement methods

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, expected credit loss ("ECL") is recognised for financial assets measured at amortised cost or measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Classification and subsequent measurement

The Group classifies its financial assets into the following measurement categories:

– Amortised cost;

– FVOCI; or

– FVTPL.

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial assets, financial liabilities, interest income and expense (Continued)

Classification and subsequent measurement (Continued)

Debt instruments (Continued)

There are three measurement categories into which the Group classifies its debt instruments:

(a) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by ECL recognised. Interest income from these financial assets is included in "Net interest income" using the effective interest rate method.

(b) FVOCI: Assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in "Net interest income" using the effective interest rate method.

(c) FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in profit or loss and presented net in the statement of profit or loss within "Net trading income" in the period in which it arises.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial assets, financial liabilities, interest income and expense (Continued)

Classification and subsequent measurement (Continued)

Equity instruments

The Group subsequently measures equity instruments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity security at FVOCI. Where the Group's management has elected to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the instruments. Dividends from such instruments continue to be recognised in profit or loss as dividend income when the Group's right to receive payments is established.

Gains and losses on equity instruments at FVTPL are included in the "Net trading income" in the statement of profit or loss.

Modification of financial assets

If the borrower is in financial difficulty, where the terms of the financial assets are modified and being substantially different to the original terms, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Difference in the carrying amount is also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, the financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

(i) does not have obligation to make payments unless it collects equivalent amounts from the assets;

(ii) is prohibited from selling or pledging the assets; and

(iii) has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial assets, financial liabilities, interest income and expense (Continued)

Impairment of financial assets

The Group assesses on a forward-looking basis ECL associated with its financial assets carried at amortised cost and debt instruments measured at FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3.1.1 provides more detail of how the ECL is measured.

Financial liabilities

Classification and subsequent measurement

The Group classifies its financial liabilities at amortised cost, except for:

(a) financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). Should such a presentation create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss; and

(b) financial liabilities arising from the transfer of financial assets which did not qualify for derecognition: when the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial assets, financial liabilities, interest income and expense (Continued)

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as financial assets or financial liabilities at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the statement of profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECL and includes the transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that have subsequently become credit-impaired (or "Stage 3"), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

2.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the equity option in an equity linked instrument. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes.

2.8 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

The fair value of the financial guarantee contracts is initially recognised as the premium received in accordance with HKFRS 15. Subsequent to initial recognition, the Group has taken into account the amount of expected credit loss under HKFRS 9.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 3.1.1). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, yield curves, FX rates, volatilities and counterparty spreads) existing at the end of each reporting period.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation techniques are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary, particularly in view of the current market developments.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Properties and equipment

(a) Land and bank premises

Land and buildings comprise mainly branches and offices. Leasehold land classified as finance lease and buildings are stated at historical cost, which includes expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Depreciation of land and buildings is provided annually by charging a sum sufficient to write down the cost of the land and buildings systematically. The land is depreciated over the lease term. The depreciation of the buildings is based on management's appraisal of their conditions, which includes estimations of the remaining useful lives, which are not expected to exceed 40 years.

Interest in freehold land is stated at cost.

(b) Furniture, fittings and equipment

Furniture, fittings and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation of furniture, fittings and equipment are calculated to write off the costs of the assets over their estimated useful lives on a straight line basis over 4 to 10 years.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of profit or loss during the financial period in which they are incurred.

(c) Property under development

Leasehold land for property under development is stated at historical cost, less accumulated depreciation and impairment losses, and development expenditure is stated at the aggregate amount of costs incurred up to the date of completion. For depreciation of leasehold land for properties under development, please refer to Note 2.10(a) above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.14). The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing proceeds and the carrying amount of the relevant assets and are recognised in the statement of profit or loss.

2.11 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property. Investment properties are land and office buildings. Investment properties are measured at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the unexpired period of the lease term for land and the shorter of the leases or 40 years for buildings.

2.12 Properties for sale

Properties for sale are carried at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised and the anticipated costs to completion.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Leases

The Group's leasing activities and how these are accounted for

The Group leases various properties, equipment and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability on the date when the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost (i.e. interest on lease liabilities). The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

– fixed payments (including in-substance fixed payments), less any lease incentives receivable;

– amounts expected to be payable by the lessee under residual value guarantees;

– the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

– payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liabilities;

– any lease payments made at or before the commencement date less any lease incentives received;

– any initial direct costs; and

– restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

The accounting for leasehold land previously classified as finance lease remains the same. Please refer to Note 2.10(a) for details.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Where the Group is a lessor

Rental income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statement of financial position based on their nature.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Impairment of investment in subsidiaries, associates, joint ventures and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of properties and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred income tax related to fair value re-measurement of FVOCI debt investments, which is charged or credited to other comprehensive income, is also credited or charged to other comprehensive income and is subsequently recognised in the statement of profit or loss together with the deferred gain or loss upon disposal.

Deferred income tax related to fair value re-measurement of FVOCI equity investments, which is charged or credited to other comprehensive income, will remain in reserves and will not be subsequently recognised in the statement of profit or loss upon disposal.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Employee benefits

(a) Retirement benefit costs

The Group operates 2 retirement benefit schemes comprising of a Mandatory Provident Fund Scheme and a defined benefit scheme that are available to the Group's employees. However, the principal scheme that the Group contributes to is the Mandatory Provident Fund Scheme. The assets of the Group's Mandatory Provident Fund Scheme and the defined benefit scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the Mandatory Provident Fund Scheme are charged to the statement of profit or loss.

The defined benefit scheme is funded by payments from the Group by taking recommendations of independent qualified actuaries. The defined benefit costs are assessed using the Attained Age Method and the cost of providing the benefit is charged to the statement of profit or loss so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the scheme once every 3 years.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed: a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal or when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves payment of termination benefits. In the case of an offer made to encourage voluntary redundancy the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to present value.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party controls, jointly controls or has significant influence over the Group; is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; is an associate or a joint venture of the Group or parent reporting group; is a key management personnel of the Group or parents, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

2.19 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition including cash, balances with banks, placements with banks, treasury bills and certificates of deposit that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.20 Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities, for a fee and commission income, that result in the holding or placing of assets on behalf of individuals, trusts and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.21 Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse impacts on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Group has in place policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, market, interest rate, foreign exchange and operational risks. One of the major functions of the Board of Directors is to ensure that the Group establishes policies, procedures and controls to manage the various types of risk it faces. The Board of Directors has delegated its powers to the Risk Committee, the Executive Committee, the Asset and Liability Committee, the Credit Committee and the Compliance and Operational Risk Management Committee for the oversight of major functional areas. While the risk appetite of the Group is approved by the Board of Directors, risk control limits are approved, reviewed, and monitored regularly by various Board-level specialized committees. Risk Committee is further responsible for assisting the Board in ensuring adequate oversight of bank-wide risks, and advising the Board on high-level risk related matters, risk management strategies and risk governance of the Group, within the framework of the Group's policies. Senior management is always watchful for changes in economic, political and market conditions in which the Group operates and the inherent risks the Group faces.

The Risk Management Division and Credit Division are responsible for monitoring the overall risk management of the Group's operations. Reconciliation procedures are also in place to ensure that the systems capture all necessary data. Prior to implementation of any new product or service, various analyses, testing, development and planning will be performed and its proposal will be endorsed by the Product/Service Governance Committee and approved by Chief Executive. All of the above arrangements ensure that the risk management processes are operating effectively.

The Internal Audit Department is responsible for conducting independent review on the effectiveness of the Group's risk management and control environment.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date.

The Group has in place effective credit review, monitoring and control systems including an effective loan classification system that identify, monitor, and determine impairment allowance in a timely manner. Management therefore carefully manages the exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are reviewed and approved by the Board of Directors from time to time but at least annually.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The Group has in place effective monitoring and control systems to identify, monitor and address problem credits in an accurate and timely manner. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The Group further mitigates credit risk by entering into netting arrangements with counterparties such as banks with which it undertakes credit activities.

Arising from the adverse economic impact from the Covid-19 pandemic, the Bank has been closely monitoring the situation and carrying out necessary evaluation to assess the level of expected credit loss. Relief measures, including those initiated by the regulators and by the Bank such as Pre-approved Principal Payment Holiday Scheme, Special 100% Loan Guarantee under the SME Financing Guarantee Scheme and Principal Moratorium for Mortgage Loans, have been made available for eligible customers and credit assessment has been performed, and there has been no significant increase in credit risk and expected credit loss. The macro-economic variable forecasts have been reviewed and projected by the Bank's economists on a monthly basis to account for the possible evolvement of resulting economy, both within the period of pandemic and the potential recovery afterward, in Hong Kong and other major countries which the Bank's network covers. In addition, the Bank has also performed credit portfolio review to evaluate the credit quality of loans by assessing the customers' repayment ability, and management overlay has been quantified and provided for to cater for the credit quality deterioration identified. Additional measures with various monitoring tools have been applied to identify negatively impacted customers aimed to minimize potential credit loss.

3.1.1 Expected credit loss measurement

The Group adopts a "three-stage" model in accordance with HKFRS 9 for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired at initial recognition is classified as "Stage 1" and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" though it has not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, it will be allocated to "Stage 3";
- Financial instruments in Stage 1 have their expected credit loss ("ECL") measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments at Stages 2 or 3 have their ECL measured on lifetime basis;
- ECL of financial instruments are measured by taking into consideration forward-looking information; and
- Purchased or originated credit-impaired ("POCI") financial assets are those financial assets that are credit-impaired at initial recognition. Their ECL are always measured on lifetime basis (Stage 3).

The Group adopts the approach that utilises the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") to estimate ECL of financial instruments. Simplified alternatives are applied to portfolios with small exposures or having difficulties in adopting this approach, such as other receivable.

To estimate PD, EAD and LGD, exposures are first segmented according to their product types and customer types so that each group contains exposures with similar risk characteristics and product specifications. The factors used for segmentation are outlined below:

(i) Customers' characteristics
(ii) Product types
(iii) Facilities' utilization
(iv) Loan to collateral ratios

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Expected credit loss measurement (Continued)

The modelling approaches used for different segments vary and with the consideration of the following factors:

(i) Portfolio size
(ii) Historical behavioural data
(iii) Data sufficiency

In assessing the ECL of financial instrument classified as Stage 3, the values of property-related collaterals are adjusted to the expected point of sales to reflect the probability weighted recoveries from the sales of properties. When ECL is not provided against the unsecured exposure, the rationale must be sufficient and clearly documented. For assessing the ECL for credit card advances in Stage 3, ECL shall be estimated by using their EAD and LGD.

Management overlay and judgements

For HKFRS 9 ECL calculation, the Group has implemented and applied management overlay above the modeled ECL. The management overlay methodologies and amounts are subject to regular robust review and governance processes to assess the adequacy and relevancy of such overlay. The management overlay includes items that are inevitably not precisely quantifiable and necessitate involvement of expert judgments, so as to account for model constraints, data limitation, exceptional events, etc. The management overlay methodologies constitute of allowing for reasonably sufficient impairment to the portfolios of the overseas branches and marginal Stage 1 loans, and accounting for other uncertainty factors on data, models, and events that might impact the ECL computation. In addition, arising from various major incidences during the year such as ongoing Covid-19 outbreak and US-China trade tensions, the Group continued to maintain the additional management overlay to cater for potential credit quality deterioration of vulnerable sectors.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

3.1.1.1 SICR

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

– The borrower is more than 30 days past due on its contractual payments;
– The financial instrument is downgraded in the internal rating categories and there is an increase in PD more than predetermined thresholds since initial recognition; and
– Significant increase in credit risk since initial recognition with reference to external rating downgrade after initial recognition for treasury portfolio.

The Group applies practical expedient for treasury traded instruments that have low credit risk at the reporting date. The Group does not recognize the instrument's lifetime ECL when it is with low credit risk, overdue not more than 30 days and its issuer acquires satisfactory internal credit assessment on credit quality, irrespective of the change in credit risk from initial recognition.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Expected credit loss measurement (Continued)

3.1.1.2 Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness-to-pay criteria, which indicates the borrower is in significant financial difficulty. These could be instances where:

- The financial instrument is restructured due to financial stress;
- The financial instrument is partially written off;
- The borrower is bankrupt;
- The borrower is unlikely to honour its credit obligation; and
- The instrument is tagged with Substandard, Doubtful or Loss in reference to the HKMA Loan Classification.

3.1.1.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is calculated as the discounted product of the PD, EAD and LGD, defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

There have been no significant changes in estimation technique or model assumptions made during the reporting period. The changes in ECL ratios were mainly resulted from the changes in asset quality, macro-economic variables forecasts and characteristics of financial instruments.

3.1.1.4 Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information by considering key economic variables identified by the Group that have impact on credit risk and ECL for the Group's portfolios.

These economic variables and their associated impact on the PD, EAD and LGD vary by the type of financial instruments. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Treasury Research team on a monthly basis as a projection of how the global economy will evolve over the next four years. Beyond these four years, the average portfolio default rate is adopted as the PD of the facilities and the last forecasted LGD is adopted for the remaining lifetime of the instrument.

In addition to the base economic scenario, the Group's Treasury Research team also provides two other plausible scenarios along with the assigned weightings as probability of occurrence under the current economic environment. The scenarios and their corresponding weightings are determined by a combination of model-based analysis and expert judgement, taking into account the range of possible outcomes each chosen scenario is representative of. The probability weighted ECL is determined by applying each scenario on the financial instruments through running the relevant ECL models and multiplying the resulted ECLs by the appropriate scenario weighting.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Expected credit loss measurement (Continued)

3.1.1.4 Forward-looking information incorporated in the ECL models (Continued)

Economic variable assumptions

The most significant economic variable assumptions used for the ECL estimate as at 31 December 2021 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		4Q2021	2022	2023	2024	2025
Hong Kong Gross Domestic Product ("GDP")	Base	2.8%	1.2% to 3.6%	1.0% to 3.8%	2.8% to 3.6%	2.8% to 3.6%
	Upside	4.2%	3.0% to 5.5%	1.4% to 4.1%	3.0% to 3.7%	3.0% to 3.7%
	Downside	–0.6%	–2.4% to 2.9%	–0.6% to 2.4%	2.1% to 3.3%	1.1% to 3.3%
United States GDP	Base	4.5%	1.5% to 4.0%	1.5% to 1.5%	1.5% to 1.5%	1.5% to 1.5%
	Upside	5.5%	1.8% to 4.5%	1.8% to 1.8%	1.8% to 1.8%	1.8% to 1.8%
	Downside	0.9%	–2.4% to 1.0%	1.0% to 1.0%	1.0% to 1.0%	1.0% to 1.0%
Hong Kong unemployment rate	Base	5.1%	5.1% to 5.3%	4.9% to 5.2%	4.3% to 4.7%	4.0% to 4.7%
	Upside	4.9%	5.0% to 5.3%	4.6% to 5.0%	4.1% to 4.4%	3.8% to 4.4%
	Downside	5.5%	5.5% to 5.9%	6.0% to 6.3%	6.3% to 6.3%	6.3% to 6.3%
United States unemployment rate	Base	5.1%	4.9% to 5.0%	5.0% to 5.3%	5.4% to 5.7%	5.8% to 5.7%
	Upside	4.2%	4.0% to 4.1%	4.1% to 4.1%	4.1% to 4.1%	4.1% to 4.1%
	Downside	7.0%	5.5% to 7.5%	6.0% to 6.9%	7.1% to 7.6%	7.7% to 7.6%
Hong Kong property price index	Base	2.6%	0.0% to 2.2%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	6.0%	2.0% to 2.9%	5.0% to 5.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	–3.0%	–24.5% to –13.0%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
United States house price index	Base	8.4%	2.0% to 4.1%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	9.5%	2.4% to 5.2%	2.4% to 2.4%	2.4% to 2.4%	2.4% to 2.4%
	Downside	–11.2%	–15.0% to 0.8%	0.8% to 0.8%	0.8% to 0.8%	0.8% to 0.8%
United Kingdom house price index	Base	2.9%	–0.4% to 2.4%	0.9% to 1.2%	1.2% to 1.2%	1.2% to 1.2%
	Upside	5.2%	0.8% to 4.6%	1.0% to 1.7%	1.9% to 2.0%	2.0% to 2.0%
	Downside	–7.3%	–16.8% to –7.9%	–3.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
People's Republic of China house price index	Base	4.7%	–2.7% to 2.0%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	5.7%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Downside	0.0%	–13.3% to 0.0%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Hong Kong commercial building price index	Base	2.6%	0.0% to 2.2%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	6.0%	2.0% to 2.9%	5.0% to 5.0%	4.0% to 4.0%	4.0% to 4.0%
	Downside	–3.0%	–24.5% to –13.0%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%

The weightings assigned to each economic scenario as at 31 December 2021 were as follows:

	Base	Upside	Downside
All portfolios	60%	20%	20%

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Expected credit loss measurement (Continued)

3.1.1.4 Forward-looking information incorporated in the ECL models (Continued)

Economic variable assumptions (Continued)

The most significant economic variable assumptions used for the ECL estimate as at 31 December 2020 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		4Q2020	2021	2022	2023	2024
Hong Kong GDP	Base	–1.9%	0.4% to 4.4%	2.4% to 3.1%	3.1% to 3.5%	2.6% to 2.9%
	Upside	1.0%	1.7% to 5.7%	2.6% to 3.6%	3.5% to 3.9%	2.9% to 3.1%
	Downside	–4.3%	–1.4% to 5.4%	–0.2% to 1.3%	1.6% to 2.7%	1.8% to 2.2%
United States GDP	Base	–1.4%	–3.2% to 5.5%	1.5% to 1.5%	1.5% to 1.5%	1.5% to 1.5%
	Upside	1.0%	2.0% to 7.0%	1.8% to 1.8%	1.8% to 1.8%	1.8% to 1.8%
	Downside	–6.1%	–6.9% to 2.7%	1.0% to 1.6%	1.0% to 1.0%	1.0% to 1.0%
Hong Kong unemployment rate	Base	6.9%	6.6% to 6.9%	6.5% to 6.7%	6.3% to 6.6%	5.8% to 6.1%
	Upside	6.4%	6.2% to 6.4%	5.9% to 6.2%	5.5% to 5.9%	5.0% to 5.3%
	Downside	7.2%	7.2% to 7.4%	7.2% to 7.6%	7.7% to 8.0%	8.0% to 8.0%
United States unemployment rate	Base	7.5%	4.7% to 8.0%	4.8% to 5.1%	5.2% to 5.5%	5.6% to 5.8%
	Upside	7.0%	3.6% to 6.0%	3.7% to 3.8%	3.8% to 3.8%	3.8% to 3.8%
	Downside	9.0%	10.5% to 12.5%	6.5% to 8.5%	7.4% to 8.3%	8.5% to 8.8%
Hong Kong property price index	Base	–1.2%	–1.7% to 6.5%	0.0% to 0.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	1.8%	2.7% to 8.9%	2.0% to 2.0%	5.0% to 5.0%	4.0% to 4.0%
	Downside	–2.9%	–23.5% to –9.1%	–13.7% to 6.1%	0.0% to 0.0%	0.0% to 0.0%
United States house price index	Base	7.0%	2.7% to 6.6%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	10.5%	2.2% to 8.5%	2.3% to 2.4%	2.4% to 2.4%	2.4% to 2.4%
	Downside	–0.1%	–14.5% to –5.8%	–5.3% to 1.6%	0.8% to 0.8%	0.8% to 0.8%
United Kingdom house price index	Base	0.4%	–4.5% to 0.3%	–0.4% to 0.8%	0.9% to 1.2%	1.2% to 1.2%
	Upside	4.4%	0.5% to 5.4%	0.8% to 0.8%	1.0% to 1.4%	1.4% to 1.4%
	Downside	–0.7%	–13.3% to –5.0%	–5.9% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
People's Republic of China house price index	Base	4.0%	–0.5% to 5.0%	2.0% to 2.0%	2.0% to 2.0%	2.0% to 2.0%
	Upside	6.1%	3.0% to 7.7%	3.0% to 3.0%	3.0% to 3.0%	3.0% to 3.0%
	Downside	–0.3%	–14.2% to –4.8%	0.0% to 0.0%	0.0% to 0.0%	0.0% to 0.0%
Hong Kong commercial building price index	Base	–1.2%	–1.7% to 6.5%	0.0% to 0.0%	3.0% to 3.0%	3.0% to 3.0%
	Upside	1.8%	2.7% to 8.9%	2.0% to 2.0%	5.0% to 5.0%	4.0% to 4.0%
	Downside	–2.9%	–23.5% to –9.1%	–13.7% to 6.1%	0.0% to 0.0%	0.0% to 0.0%

The weightings assigned to each economic scenario as at 31 December 2020 were as follows:

	Base	Upside	Downside
All portfolios	60%	20%	20%

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Expected credit loss measurement (Continued)

3.1.1.5 Sensitivity analysis

The output of the Group's ECL model takes into consideration forward-looking information and scenarios based on the market analysis prepared by the Group's Treasury Research team. The Group has applied appropriate weightings to the base case, upside and downside scenarios which are sources of sensitivity. Two additional sensitivity scenarios (scenarios 1 and 2 below) have been drawn up. Should the weightings applied by the Group be changed to those of the sensitivity scenarios as follows, the impact to ECL amount would be immaterial.

2021	Base	Upside	Downside
Weightings applied by the Group	60%	20%	20%
Sensitivity scenario 1	40%	30%	30%
Sensitivity scenario 2	80%	10%	10%

2020	Base	Upside	Downside
Weightings applied by the Group	60%	20%	20%
Sensitivity scenario 1	40%	30%	30%
Sensitivity scenario 2	80%	10%	10%

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.2 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1, Stage 2 and Stage 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied:

For the year ended 31 December 2021	Gross carrying/ nominal amount	Credit impairment allowances	Credit impairment losses charged to/ (released from) profit or loss
Financial assets measured at amortised cost:			
Loans and advances to customers	96,422,010	(515,784)	21,126
Balances with banks and placements with banks	45,349,170	(2,762)	1,522
Loan commitments and financial guarantees	48,826,994	(14,718)	(83)
Investment securities	1,573,691	(56)	51
Other assets measured at amortised cost	1,514,698	(1,405)	(149)
	193,686,563	(534,725)	22,467

	Fair value	Credit impairment allowances	Credit impairment losses charged to profit or loss
Debt securities at fair value through other comprehensive income*	77,503,719	(19,411)	6,943

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.2 Loss allowance (Continued)

For the year ended 31 December 2020

	Gross carrying/ nominal amount	Credit impairment allowances	Credit impairment losses charged to/ (released from) profit or loss
Financial assets measured at amortised cost:			
Loans and advances to customers	101,738,494	(490,555)	111,238
Balances with banks and placements with banks	38,504,225	(6,689)	6,080
Loan commitments and financial guarantees	51,215,950	(14,801)	2,698
Investment securities	344,675	(5)	(15)
Other assets measured at amortised cost	2,307,977	(1,553)	930
	194,111,321	(513,603)	120,931

	Fair value	Credit impairment allowances	Credit impairment losses charged to profit or loss
Debt securities at fair value through other comprehensive income*	71,511,686	(12,468)	4,509

* Debt securities at fair value through other comprehensive income continue to be measured at fair value with the credit impairment allowances being recognized in Investment Revaluation Reserve. Change in credit impairment allowances is recognized in "Credit impairment losses" in the consolidated statement of profit or loss.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.2 Loss allowance (Continued)

Reconciliation of gross carrying amount and allowances for loans and advances to customers are as follows:

	Stage 1		Stage 2		Stage 3		Originated credit-impaired		Total	
	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances
As at 1 January 2021	92,296,890	326,031	9,273,268	118,861	129,933	32,327	38,403	13,336	101,738,494	490,555
Transfer to lifetime ECL	(1,112,938)	(9,508)	1,112,938	20,367	–	–	–	–	–	10,859
Transfer to credit impaired loans and advances	(18,364)	(33)	(312,274)	(5,521)	330,638	913	–	–	–	(4,641)
Transfer to 12-month ECL	660,643	7,641	(660,458)	(18,518)	(185)	(96)	–	–	–	(10,973)
Loans derecognised or repayments	(27,912,301)	(66,979)	(1,278,223)	(10,888)	(14,423)	(112)	(1,009)	–	(29,205,956)	(77,979)
New loans originated and further lending	22,433,970	40,317	1,183,875	6,534	36,687	814	1,771	–	23,656,303	47,665
Change in PDs/LGDs/EADs	–	(21,540)	–	39,822	–	6,697	–	(150)	–	24,829
Write-offs	–	–	–	–	(1,352)	(1,352)	–	–	(1,352)	(1,352)
Foreign exchange and other movements	226,962	12,369	7,521	23,372	3,763	998	(3,725)	82	234,521	36,821
As at 31 December 2021	86,574,862	288,298	9,326,647	174,029	485,061	40,189	35,440	13,268	96,422,010	515,784

	Stage 1		Stage 2		Stage 3		Originated credit-impaired		Total	
	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances	Gross carrying amount	Credit impairment allowances
As at 1 January 2020	93,710,236	302,185	4,908,463	73,280	537,331	24,144	31,061	13,791	99,187,091	413,400
Transfer to lifetime ECL	(6,028,906)	(22,503)	6,028,906	56,082	–	–	–	–	–	33,579
Transfer to credit impaired loans and advances	(66,068)	(64)	(34,531)	(632)	100,599	29,120	–	–	–	28,424
Transfer to 12-month ECL	1,191,994	12,635	(1,178,508)	(23,215)	(13,486)	(140)	–	–	–	(10,720)
Loans derecognised or repayments	(23,254,563)	(62,419)	(1,300,459)	(9,731)	(476,119)	(7)	(14,380)	–	(25,045,521)	(72,157)
New loans originated and further lending	26,375,560	61,371	845,578	7,920	4,856	40	21,800	29	27,247,794	69,360
Change in PDs/LGDs/EADs	–	29,744	–	(8,365)	–	18,774	–	(470)	–	39,683
Write-offs	–	–	–	–	(40,983)	(40,983)	–	–	(40,983)	(40,983)
Foreign exchange and other movements	368,637	5,082	3,819	23,522	17,735	1,379	(78)	(14)	390,113	29,969
As at 31 December 2020	92,296,890	326,031	9,273,268	118,861	129,933	32,327	38,403	13,336	101,738,494	490,555

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.3 Write-off policy

The Group writes off financial assets in whole when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) the shortfall amount after realization of collateral.

The Group seeks to recover amounts that are legally owed in full, but it writes off financial assets in part when the recovery method is realization of collateral and the value of the collateral is such that there is no reasonable expectation of recovering amounts that are legally owed in full.

3.1.4 Risk limit control and mitigation policies

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these methods is the taking of security for funds advanced, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. Guideline is in place to govern the management of collateral acceptable by the Group and the guideline is reviewed periodically.

The Group closely monitors collateral held for financial assets which are considered to be credit-impaired in order to mitigate potential losses.

The principal collateral types for loans and advances are:

– Mortgages over residential properties;
– Charges over business assets such as premises, inventory and accounts receivable; and
– Charges over bank deposits and financial instruments such as debt securities and equities.

In addition to the above, the Group will also seek for guarantee where appropriate. To minimise credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances which are partially secured or unsecured.

(b) Derivatives

The Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair values are positive), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(c) Credit-related commitments

The Group has issued credit related commitments including guarantees and letters of credit. These instruments carry similar credit risk as loans. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Maximum exposure to credit risk

	Maximum exposure	
	2021	2020
Financial instruments subject to impairment		
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances	95,906,226	101,247,939
Balances with banks and placements with banks	45,346,408	38,497,536
Investment securities	79,077,354	71,856,356
Other assets	1,513,293	2,306,424
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	2,260,190	2,316,753
Off-balance sheet commitments and other credit related contingent liabilities	46,552,086	48,884,396
Financial instruments not subject to impairment		
Financial assets at fair value through profit or loss	1,683,275	2,074,595
Derivative financial instruments	317,330	842,146

The following table contains an analysis of the credit risk exposure of financial instruments for which a credit impairment allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets, without taking account of any collateral held or other credit enhancements attached.

2021	Loans and advances				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Originated credit-impaired	Total
Credit grade					
Pass	86,089,900	3,107,261	71	551	89,197,783
Special Mention	484,946	6,219,341	–	–	6,704,287
Substandard	16	45	401,138	21,802	423,001
Doubtful	–	–	81,405	12,725	94,130
Loss	–	–	2,447	362	2,809
Gross carrying amount	86,574,862	9,326,647	485,061	35,440	96,422,010
Credit impairment allowances	(288,298)	(174,029)	(40,189)	(13,268)	(515,784)
Net carrying amount	86,286,564	9,152,618	444,872	22,172	95,906,226

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Maximum exposure to credit risk (Continued)

2020

	Loans and advances				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Originated credit-impaired	Total
Credit grade					
Pass	91,811,702	2,894,601	90	–	94,706,393
Special Mention	485,180	6,378,567	–	931	6,864,678
Substandard	8	100	74,882	24,021	99,011
Doubtful	–	–	52,344	13,089	65,433
Loss	–	–	2,617	362	2,979
Gross carrying amount	92,296,890	9,273,268	129,933	38,403	101,738,494
Credit impairment allowances	(326,031)	(118,861)	(32,327)	(13,336)	(490,555)
Net carrying amount	91,970,859	9,154,407	97,606	25,067	101,247,939

As at 31 December 2021, 99% (2020: 98%) of the off-balance sheet items are "Pass" and 1% (2020: 2%) are "Special Mention". The amount classified as "Substandard", "Doubtful" or "Loss" is immaterial. Majority of the credit impairment allowances are provided on Stage 1 (2020: Stage 1).

"Pass" represents loans for which borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans with deficiencies and potential weakness such that if adverse conditions persist, loss of principal or interest for the Bank may occur.

"Substandard" represents loans in which borrowers are displaying a definable weakness that is likely to jeopardise repayment. These loans include rescheduled loans and loans where some losses of principal or interest are possible.

"Doubtful" represents loans which the Group expects to sustain a loss of interest and/or principal.

"Loss" represents loans which considered as uncollectible after exhausting all collection efforts such as realisation of collateral, initiation of legal proceedings and need to be fully or partially written off.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Maximum exposure to credit risk (Continued)

The table below presents an analysis of debt securities by rating agency designation for the respective issues as at 31 December, based on Standard & Poor's ratings or their equivalent. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	Investment securities					
	2021			2020		
	Investment securities at fair value through other comprehensive income	Investment securities at amortised cost	Total	Investment securities at fair value through other comprehensive income	Investment securities at amortised cost	Total
Credit grade						
AAA	4,151,267	–	4,151,267	1,695,278	–	1,695,278
AA– to AA+	15,107,337	1,373,899	16,481,236	16,939,790	344,675	17,284,465
A– to A+	45,686,626	199,792	45,886,418	39,776,072	–	39,776,072
BBB– to BBB+	8,476,154	–	8,476,154	9,532,774	–	9,532,774
Unrated	4,082,335	–	4,082,335	3,567,772	–	3,567,772
Gross carrying amount	77,503,719	1,573,691	79,077,410	71,511,686	344,675	71,856,361
Stage 1 credit impairment allowances	19,411	56	19,467	12,468	5	12,473

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.6 Concentration of credit risk of financial assets

International claims

The following table shows the Group's international claims by major country or geographical segment, each representing 10% or more of the Group's total international claims. International claims refer to exposures to counterparties on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

As at 31 December 2021			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	19,143,000	391,000	1,712,000	3,283,000	24,529,000
Offshore centres	9,883,000	660,000	3,694,000	29,363,000	43,600,000
– of which Hong Kong	7,292,000	660,000	3,016,000	26,333,000	37,301,000
Developing Asia-Pacific	47,424,000	657,000	1,526,000	8,783,000	58,390,000
– of which China	31,758,000	657,000	1,526,000	6,745,000	40,686,000

As at 31 December 2020			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	18,392,000	5,464,000	1,814,000	1,234,000	26,904,000
Offshore centres	5,720,000	–	3,067,000	29,230,000	38,017,000
– of which Hong Kong	3,882,000	–	2,237,000	25,644,000	31,763,000
Developing Asia-Pacific	40,950,000	117,000	1,104,000	9,916,000	52,087,000
– of which China	29,498,000	117,000	1,104,000	7,934,000	38,653,000

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.7 Loans and advances (excluding trade bills and other eligible bills)

(a) Loans and advances by industry sector

The following table shows the breakdown of the Group's loans and advances (excluding trade bills and other eligible bills) by industry sector according to the usage of loans based on the categories and definitions set by the Hong Kong Monetary Authority.

	2021		2020	
	Balance	% covered by collateral	Balance	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,944,336	53%	3,307,366	61%
– Property investment	5,048,305	94%	6,340,395	93%
– Financial concerns	2,723,750	13%	2,157,314	7%
– Stockbrokers	424,980	88%	817,691	74%
– Wholesale and retail trade	1,337,980	54%	1,696,627	48%
– Manufacturing	898,676	66%	1,113,524	63%
– Transport and transport equipment	593,337	57%	638,595	59%
– Recreational activities	2,239,583	11%	2,442,598	18%
– Information technology – telecommunication	4,773	100%	4,884	100%
– Hotels, boarding houses and catering	1,950,340	91%	2,089,880	91%
– Others	12,573,081	57%	13,422,363	58%
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	64,374	99%	73,510	100%
– Loans for the purchase of other residential properties	3,744,094	100%	4,199,453	100%
– Credit card advances	194,080	0%	166,720	0%
– Others	6,673,119	96%	7,151,373	98%
Trade financing	8,763,904	58%	7,941,981	61%
Loans for use outside Hong Kong	45,758,582	87%	47,743,633	85%
	95,937,294	76%	101,307,907	77%

As at 31 December 2021 and 2020, the Bank did not have exposures to individual industry sector constituting 10% or more of the Group's total amount of loans and advances.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.7 Loans and advances (excluding trade bills and other eligible bills) (Continued)

(b) Loans and advances by geographical area

The information concerning the breakdown of the gross amount of loans and advances to customers (excluding trade bills and other eligible bills) by country or geographical area is derived according to the location of the customers after taking into account any transfer of risk. In general, such transfer of risk takes place if the loans and advances are guaranteed by a party in a country which is different from that of the customers.

As at 31 December 2021	Balance	Stage 3 balance	Balance overdue for over 3 months	Total Stage 3 credit impairment allowances	Total Stage 1 and Stage 2 credit impairment allowances
Hong Kong	58,712,390	84,439	33,463	16,642	383,190
Mainland China	6,367,989	73,629	73,629	36,815	17,204
United States	26,817,058	362,433	–	–	41,200
Others	4,039,857	–	–	–	20,340
	95,937,294	520,501	107,092	53,457	461,934
% of gross loans and advances to customers		0.54			
Fair value of collateral		870,897			

As at 31 December 2020	Balance	Stage 3 balance	Balance overdue for over 3 months	Total Stage 3 credit impairment allowances	Total Stage 1 and Stage 2 credit impairment allowances
Hong Kong	62,915,349	71,610	24,287	15,749	375,327
Mainland China	7,155,458	71,751	47,907	29,914	14,799
United States	26,557,550	22,066	–	–	39,718
Others	4,679,550	2,909	2,804	–	14,767
	101,307,907	168,336	74,998	45,663	444,611
% of gross loans and advances to customers		0.17			
Fair value of collateral		392,915			

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.7 Loans and advances (excluding trade bills and other eligible bills) (Continued)

(c) Loans and advances overdue for more than 3 months

	2021		2020	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Balances which have been overdue for:				
– 6 months or less but over 3 months	14,997	0.02	6,086	0.01
– 1 year or less but over 6 months	25,023	0.03	5,507	–
– over 1 year	67,072	0.07	63,405	0.06
	107,092	0.12	74,998	0.07
Current market value of collateral	188,907		160,761	
Covered portion by collateral	91,701		61,945	
Uncovered portion by collateral	15,391		13,053	
Credit impairment allowances	52,751		37,520	

Collateral held against such loans and advances mainly include mortgages over properties.

(d) Rescheduled loans and advances (net of amounts included in loans and advances overdue for more than 3 months)

	2021		2020	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	27,868	0.03	30,760	0.03

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk

Market risk is the risk that interest rates, foreign exchange rates, equity or commodity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Group enters into various types of financial instruments, mainly foreign exchange and equity contracts, that comprise transactions initiated for the Group's own account and customer needs. The Group's positions are managed by the Treasury Division under the limits and guidelines laid down in the foreign exchange risk management policy and the policy on allocating transactions of financial instruments to the trading, non-trading or investment book, approved by the Executive Committee. The Risk Management Division is responsible for monitoring the transactions to ensure the activities are within the relevant limits and guidelines.

3.2.1 Market risk measurement techniques

The measuring procedures and limit structure used for market risk management have been approved by the Executive Committee. Limits on notional, stop loss and sensitivity are set for trading positions which are marked-to-market daily.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are reviewed by management, the Asset and Liability Committee, the Risk Committee and the Board of Directors.

3.2.2 Market risk sensitivity summary

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily by hedging its underlying positions. The derivatives used by the Group including foreign exchange rate and interest rate contracts which are typically made over-the-counter and are managed within limits approved by the Executive Committee.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's foreign exchange risk arises primarily from currency exposures originated by the Group's commercial banking businesses. The foreign exchange risk is managed by the Treasury Division and monitored by the Risk Management Division and the Asset and Liability Committee within position limits set in the foreign exchange risk management policy. Changes to the position limits are approved by the Executive Committee and reviewed by the Risk Committee on a regular basis. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk: on- and off-balance sheet financial instruments

As at 31 December 2021	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	12,701,893	9,708,245	3,216,027	5,059,422	30,685,587
Placements with banks	8,359,057	6,558,370	428,184	133,068	15,478,679
Loans and advances to customers	45,720,248	37,240,178	6,630,228	6,315,572	95,906,226
Financial assets at fair value through profit or loss	355,331	1,748,602	–	–	2,103,933
Derivative financial instruments	317,330	–	–	–	317,330
Investment securities at fair value through other comprehensive income	32,509,153	31,407,032	15,529,004	1,993,804	81,438,993
Investment securities at amortised cost	1,229,159	344,476	–	–	1,573,635
Other assets	849,252	495,606	237,270	87,490	1,669,618
Total	102,041,423	87,502,509	26,040,713	13,589,356	229,174,001
Liabilities					
Deposits and balances from banks	1,073,562	4,517,407	1,810,776	1,630,805	9,032,550
Deposits from customers	93,292,982	62,412,138	18,960,891	8,921,234	183,587,245
Derivative financial instruments	251,085	–	–	–	251,085
Subordinated debts	–	4,269,682	–	–	4,269,682
Other liabilities	1,763,793	448,297	180,581	33,437	2,426,108
Total	96,381,422	71,647,524	20,952,248	10,585,476	199,566,670
Net on-balance sheet position	5,660,001	15,854,985	5,088,465	3,003,880	29,607,331
Credit commitments	33,153,575	13,374,134	1,553,013	746,272	48,826,994

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

As at 31 December 2020	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	7,744,948	13,482,017	5,136,465	3,631,824	29,995,254
Placements with banks	1,279,702	6,661,186	1,013,336	279,873	9,234,097
Loans and advances to customers	51,529,682	36,366,214	6,676,062	6,675,981	101,247,939
Financial assets at fair value through profit or loss	92,811	2,105,940	–	–	2,198,751
Derivative financial instruments	842,146	–	–	–	842,146
Investment securities at fair value through other comprehensive income	28,418,575	34,563,579	10,325,699	2,381,190	75,689,043
Investment securities at amortised cost	–	344,670	–	–	344,670
Other assets	1,597,797	631,796	130,373	90,034	2,450,000
Total	91,505,661	94,155,402	23,281,935	13,058,902	222,001,900
Liabilities					
Deposits and balances from banks	1,370,008	2,680,300	2,032,805	1,757,221	7,840,334
Deposits from customers	90,155,471	63,694,103	15,602,339	8,345,026	177,796,939
Derivative financial instruments	924,669	–	–	–	924,669
Subordinated debts	–	4,241,480	–	–	4,241,480
Other liabilities	1,824,682	527,716	822,778	31,093	3,206,269
Total	94,274,830	71,143,599	18,457,922	10,133,340	194,009,691
Net on-balance sheet position	(2,769,169)	23,011,803	4,824,013	2,925,562	27,992,209
Credit commitments	31,204,672	17,687,076	1,917,747	406,455	51,215,950

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk in the banking book ("IRRBB")

General information about IRRBB

The primary forms of IRRBB faced by the Group can be divided into three broad categories:

– Gap risk is the risk arising from changes in the interest rates on instruments of different maturities. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk). Parallel risk is fundamental to banking business and this risk is taken on the balance sheet as part of the strategy to improve earnings. It can, however, affect the income and economic value of the Group as interest rates fluctuate. Non-parallel risk materialises when unanticipated changes in the shape of the yield curve have adverse effects on the Group's income or economic value.

– Basis risk arises from imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics. As a result of these differences, the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or repricing frequencies will change.

– Option risk arises from interest rate option derivatives or from option elements embedded in the Group's assets, liabilities and/or off-balance sheet instruments, where the customers can alter the level and timing of their cash flows. Option risk can be further characterised into automatic option risk and behavioural option risk. Automatic option risk arises from standalone instruments, such as exchange-traded and over-the-counter option contracts, or options explicitly embedded within an otherwise standard financial instrument, where the option will almost certainly be exercised if it is in the holder's financial interest to do so. Behavioural option risk arises from the flexibility embedded implicitly or within the terms of financial contracts, such that changes in interest rates may affect the behaviour of the customer.

Apart from the three sources of risks listed above, which are directly linked to IRRBB, credit spread risk in the banking book ("CSRBB") is a related risk that is monitored and assessed within interest rate risk management framework. CSRBB refers to any kind of asset/liability spread risk of credit-risky instruments that is not explained by IRRBB or by the expected credit risk or jump to default risk.

Governance of IRRBB risk management

The Group's IRRBB risk management framework follows a hierarchy structure:

The Executive Committee and Risk Committee are delegated by the Board to be responsible for ensuring that an appropriate interest rate risk management structure, which identifies the lines of authorities and responsibilities for different levels of management is established, maintaining continued awareness of the Group's performance and overall interest rate risk, and ensuring the interest rate risk is adequately managed and controlled within the established risk management framework.

The Asset and Liability Committee is responsible for monitoring and management of the overall interest rate risk of the Group, reviewing the report on interest rate risk position and reporting regularly on interest rate risk management to the Executive Committee and Risk Committee.

The Treasury Division is responsible for the day-to-day management of interest rate risk for the Group including branches of the Bank outside Hong Kong under the guidelines and limits approved by the Executive Committee.

The Risk Management Division is responsible for monitoring the day-to-day management of the interest rate risk for the Group including branches of the Bank outside Hong Kong, reporting identified irregularities and taking appropriate remedial actions. It is also responsible for conducting regular stress test on interest rate risk and reviewing the IRRBB behavioural assumption on a periodic basis.

The Internal Audit Department is responsible for conducting periodic review on the adequacy and effectiveness of the Group's internal control and risk management process for interest rate risk.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk in the banking book ("IRRBB") (Continued)

IRRBB risk measure

The IRRBB is assessed daily with risk indicators, such as the repricing gap and the sensitivity of the net interest income ("NII") and economic value of equity ("EVE") under interest rate shock and stress scenarios.

Six interest rate shock scenarios prescribed by the Hong Kong Monetary Authority ("HKMA") under the completion instruction for the "Return of Interest Rate Risk in the Banking Book" are applied to the Group's banking book. They include parallel shifts up and down of the interest rate curves, and non-parallel shifts such as a steepening or flattening of the interest rate curves, as well as shifting the short rate up and down relative to the long rate. The sensitivity of the EVE is specified as the maximum decrease of the banking book economic value under the six interest rate shock scenarios. Likewise, the sensitivity of the NII is specified as the maximum reduction in NII under the parallel shifts up and down scenarios, compared to the base scenario, over a period of 12 months. Additional scenarios are also applied for Internal Capital Adequacy Assessment Process purposes, which make reference to historical scenarios such as the Asian Financial Crisis in 1997 and the Global Financial Crisis in 2008, to estimate the IRRBB capital charge under those stressed scenarios.

IRRBB related hedging decisions are made by the Asset and Liability Committee and executed in the market by the Treasury Division. The Group has not designated any derivatives in any hedge relationship for the application of hedge accounting.

Key modelling and parametric assumptions

For EVE change/impact, commercial margins and other spread components have been included in the cash flow profiling, while the discount curves used are risk-free yield curves without spread components.

For Non-maturity deposits ("NMDs"), these are segmented into several sub-portfolios according to entity (such as head office and overseas branches), customer type and transaction type (such as retail and non-retail accounts, and transactional and non-transactional accounts), currency, and product type (such as current and savings accounts). It is assumed that customer behaviours within the same sub-portfolio are homogeneous. For each sub-portfolio, the average repricing maturity is determined after:

– Stable NMDs over a 10-year historical horizon are identified;

– The Core Deposit Ratio is estimated based on historical interest rate changes; and

– Slotting rates for NMDs repricing, which are subject to average repricing maturity caps in accordance with the customer types, are constructed.

The average and longest repricing maturity of the NMDs of major currencies as at 31 December 2021 were 0.71 years and 8.33 years (2020: 0.78 years and 8.33 years) respectively.

For fixed rate loan prepayment, a statistical behavioural model is developed using the historical data for retail fixed rate loans, which are segmented into sub-portfolios by product type and branches and further by homogeneous groups with similar prepayment behaviour categorized by currency, customer type, tenor, etc. This allows the conditional prepayment rates ("CPR") to be estimated. The parameters are then applied in cash flow slotting for reporting.

For early withdrawal of time deposits, a statistical behavioural model is developed using the historical data for retail term deposits to estimate early withdrawal rates. The term deposit portfolio is segmented into sub-portfolios by currency and tenor group with homogeneous early redemption behaviour for modelling.

The model assumptions and parameters are updated, reviewed and validated regularly or when necessary in response to change of market conditions.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk in the banking book ("IRRBB") (Continued)

Quantitative disclosure

The IRRBB introduces six interest rate shock scenarios (namely interest yield curve parallel up, parallel down, steepener, flattener, short rate up and short rate down) for assessing the impact in economic value of equity ("EVE") and net interest income ("NII") in respect of the interest rate exposures arising from banking book positions.

The table below shows the negative impact in economic value of equity ("ΔEVE") and changes in net interest income ("ΔNII") over next 12 months under the six prescribed interest rate shock scenarios for banking books provided by the HKMA per Supervisory Policy Manual IR-1 comprising major currencies based on the financial positions as at 31 December 2021 and 31 December 2020. As at 31 December 2021, the maximum losses among the six scenarios on EVE and NII would have been HK$1,720 million and HK$133 million (2020: HK$1,179 million and HK$94 million) respectively.

(All major currencies) in HK dollar thousands		(a)	(b)	(c)	(d)
		ΔEVE*		ΔNII**	
	Period	31 December 2021	31 December 2020	31 December 2021	31 December 2020
1	Parallel up	1,720,000	1,179,000	133,000	(92,000)
2	Parallel down	3,000	–	(132,000)	94,000
3	Steepener	6,000	57,000		
4	Flattener	472,000	145,000		
5	Short rate up	1,126,000	616,000		
6	Short rate down	10,000	3,000		
7	Maximum loss	1,720,000	1,179,000	133,000	94,000
	Period	31 December 2021		31 December 2020	
8	Tier 1 capital	32,124,445		30,087,958	

* Positive value indicates negative impact in EVE

** Negative value indicates increase in NII, positive value indicates decrease in NII

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. The Board is ultimately responsible for overseeing the Group's liquidity risk management structure. The Risk Committee is delegated by the Board to oversee the Group's liquidity risk management, including approval of liquidity risk management policies and risk limits. The Asset and Liability Committee is delegated by the Board to oversee the Group's liquidity strategy, policies and practices, liquidity costs, benefits and risks are incorporated in the internal pricing, performance measurement and new product approval process for all significant activities, both on- and off-balance sheet. The Risk Management Division is responsible for the day-to-day liquidity risk management. The Group's liquidity is managed by the Treasury Division in accordance with the guidelines and procedures laid down in the liquidity risk management policy.

Liquidity risk is managed with regard to a variety of factors, including the liquidity maintenance ratio, core funding ratio, loan to deposit ratio, size of the liquidity cushion, maturity mismatch profile, the diversity and stability of the deposit base, and the ability to borrow in the interbank market to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is maintained at all times in order to enable the Group to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

3.3.1 Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by management, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence within the global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity maintenance and core funding ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

A cash-flow approach is adopted to managing liquidity risk by ensuring that a net positive cash-flow position is maintained or otherwise sufficient cash can be generated from assets or funding sources to cover any funding shortfalls. The starting point for the projection is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Note 3.3.4). The projection is forward-looking and covers liquidity risks stemming from on-balance sheet assets and liabilities and off-balance sheet positions. Cash-flow projection is made over daily time bands of up to 7 days ahead and wider time bands of up to 1 year ahead. Internal limits are set to control the size of the cumulative net mismatch positions for the shorter-term time bands. Cash-flow projection covers positions in HK dollar and in all currencies in aggregate. Separate cash-flow projections are also performed for individual foreign currencies in which there are significant positions, such as US dollar and the renminbi.

Management also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.1 Liquidity risk management process (Continued)

The Group conducts stress testing regularly to analyse liquidity risk. The Group's stress tests are conducted with hypothetical as well as historical assumptions. Both funding and market liquidity risks are addressed. Three stress scenarios including an institution-specific crisis, a general market crisis and a combined crisis are adopted with minimum survival period defined according to the Supervisory Policy Manual: LM-2 "Sound Systems and Controls for Liquidity Risk Management" of the Hong Kong Monetary Authority ("HKMA").

With reference to the stress-testing results, the Group identifies potential vulnerability within the Group, and formulates a Contingency Funding Plan, which itself is a component of the Group's Business Continuity Plan, to describe the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations.

An annual drill test is conducted and the Contingency Funding Plan is subject to regular review in order to cope with changes in the business environment. Significant changes to the Contingency Funding Plan are approved by the Risk Committee.

The Group also performs reverse stress-testing in accordance with the HKMA's Supervisory Policy Manual: IC-5 "Stress-testing". It is a process of working backwards from a critical stress event and involves a mix of qualitative and quantitative analyses. The Group uses the stress-testing and reverse stress-testing results to strengthen its resilience to liquidity stress. These are supplemented with early-warning triggers for the formulation of management actions and contingency funding plan to mitigate any potential stress and vulnerability which the Group might face.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

As at 31 December 2021	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	9,430,458	21,255,129	–	–	–	–	–	30,685,587
Placements with banks	–	–	6,246,221	9,232,458	–	–	–	15,478,679
Loans and advances to customers	5,201,816	7,675,293	11,257,024	20,169,940	33,087,724	15,046,431	3,467,998	95,906,226
Financial assets at fair value through profit or loss	–	–	64	3,133	31,981	1,648,097	420,658	2,103,933
Derivative financial instruments	–	46,094	141,229	107,847	22,160	–	–	317,330
Investment securities at fair value through other comprehensive income	–	3,953,939	8,543,850	24,383,839	37,015,680	3,603,537	3,938,148	81,438,993
Investment securities at amortised cost	–	–	101,838	218,788	1,253,009	–	–	1,573,635
Properties for sale	–	–	–	–	683,924	–	–	683,924
Investments in associates and joint venture	–	–	–	–	–	–	466,829	466,829
Properties and equipment	–	8,499	16,676	62,134	101,894	62,836	2,298,238	2,550,277
Investment properties	–	–	–	–	–	–	1,002,672	1,002,672
Deferred income tax assets	–	–	–	–	–	–	55,610	55,610
Other assets	258,443	601,646	93,503	264,881	388,344	49,998	12,803	1,669,618
Total assets	14,890,717	33,540,600	26,400,405	54,443,020	72,584,716	20,410,899	11,662,956	233,933,313
Liabilities								
Deposits and balances from banks	1,160,491	3,067,515	4,315,193	489,351	–	–	–	9,032,550
Deposits from customers	79,024,715	34,199,465	47,228,378	22,895,655	239,032	–	–	183,587,245
Derivative financial instruments	–	63,484	70,074	95,366	22,161	–	–	251,085
Subordinated debts	–	–	–	–	–	4,269,682	–	4,269,682
Other liabilities	634,268	1,085,883	201,614	313,579	128,045	62,719	–	2,426,108
Current income tax liabilities	–	128,133	11,902	–	–	–	–	140,035
Deferred income tax liabilities	–	–	–	–	–	–	5,241	5,241
Total liabilities	80,819,474	38,544,480	51,827,161	23,793,951	389,238	4,332,401	5,241	199,711,946
Net liquidity gap	(65,928,757)	(5,003,880)	(25,426,756)	30,649,069	72,195,478	16,078,498	11,657,715	34,221,367
Of which lease liabilities included in:								
Other liabilities	–	8,989	17,610	66,753	110,862	62,719	–	266,933

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

As at 31 December 2020	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	11,558,058	18,437,196	–	–	–	–	–	29,995,254
Placements with banks	–	–	4,561,410	4,672,687	–	–	–	9,234,097
Loans and advances to customers	5,257,392	6,469,279	9,334,628	28,433,906	34,579,492	17,039,591	133,651	101,247,939
Financial assets at fair value through profit or loss	–	14,336	–	38,740	168,479	1,853,040	124,156	2,198,751
Derivative financial instruments	–	55,703	145,140	570,418	70,885	–	–	842,146
Investment securities at fair value through other comprehensive income	–	8,205,014	6,542,749	22,764,819	29,091,129	4,905,101	4,180,231	75,689,043
Investment securities at amortised cost	–	38,760	62,324	243,586	–	–	–	344,670
Properties for sale	–	–	–	–	591,418	–	–	591,418
Investments in associates and joint venture	–	–	–	–	–	–	443,480	443,480
Properties and equipment	–	10,102	19,628	80,803	154,158	69,756	2,322,709	2,657,156
Investment properties	–	–	–	–	–	–	1,010,526	1,010,526
Deferred income tax assets	–	–	–	–	–	–	27,668	27,668
Other assets	389,854	1,294,776	83,188	269,300	345,918	62,776	4,188	2,450,000
Total assets	17,205,304	34,525,166	20,749,067	57,074,259	65,001,479	23,930,264	8,246,609	226,732,148
Liabilities								
Deposits and balances from banks	1,321,983	3,594,486	2,392,853	531,012	–	–	–	7,840,334
Deposits from customers	70,545,414	34,429,328	48,208,921	24,426,259	187,017	–	–	177,796,939
Derivative financial instruments	–	85,120	168,007	600,657	70,885	–	–	924,669
Subordinated debts	–	–	–	–	–	4,241,480	–	4,241,480
Other liabilities	516,898	1,705,154	368,077	372,273	173,027	70,329	511	3,206,269
Current income tax liabilities	–	97,820	19,967	–	–	–	–	117,787
Deferred income tax liabilities	–	–	–	–	–	–	109,871	109,871
Total liabilities	72,384,295	39,911,908	51,157,825	25,930,201	430,929	4,311,809	110,382	194,237,349
Net liquidity gap	(55,178,991)	(5,386,742)	(30,408,758)	31,144,058	64,570,550	19,618,455	8,136,227	32,494,799
Of which lease liabilities included in:								
Other liabilities	–	9,803	19,808	84,371	170,069	70,329	–	354,380

3.3.3 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification of sources based on currency, geography, provider, product and term.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis, they do not result in a significantly different analysis.

As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	4,231,692	4,328,325	495,540	–	–	9,055,557
Deposits from customers	113,293,491	47,336,564	23,108,082	258,040	–	183,996,177
Subordinated debts	58,487	–	131,597	760,334	4,635,227	5,585,645
Other liabilities	1,647,559	58,969	275,188	129,310	63,205	2,174,231
Total	119,231,229	51,723,858	24,010,407	1,147,684	4,698,432	200,811,610
Assets held for managing liquidity risk	47,819,559	26,682,178	56,118,105	76,726,298	32,513,768	239,859,908

As at 31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	4,923,822	2,399,466	532,969	–	–	7,856,257
Deposits from customers	105,075,619	48,364,228	24,690,681	204,673	–	178,335,201
Subordinated debts	58,142	–	130,818	755,840	4,793,824	5,738,624
Other liabilities	2,127,831	186,083	314,205	177,384	70,855	2,876,358
Total	112,185,414	50,949,777	25,668,673	1,137,897	4,864,679	194,806,440
Assets held for managing liquidity risk	50,332,521	21,164,945	58,427,429	69,602,048	33,512,689	233,039,632

The Group's policy defines the size and composition of the liquidity cushion, which includes but is not limited to high quality government securities such as Exchange Fund papers and United States Treasury securities.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.5 Derivative liabilities

The table below analyses the Group's derivative financial liabilities that will be settled on a net basis, together with all derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives. Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Derivatives held for trading settled on a net basis:					
Exchange rate contracts					
– Outflow	(2,294)	(2,370)	(1,094)	–	(5,758)
Derivatives held for trading settled on a gross basis:					
Exchange rate contracts					
– Outflow	(13,558,973)	(12,234,419)	(23,766,742)	(7,333)	(49,567,467)
– Inflow	13,534,255	12,302,492	23,785,750	7,332	49,629,829
Interest rate contracts					
– Outflow	–	(697)	(1,497)	–	(2,194)
– Inflow	–	697	1,497	–	2,194

As at 31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Derivatives held for trading settled on a net basis:					
Exchange rate contracts					
– Inflow/(Outflow)	–	–	–	–	–
Derivatives held for trading settled on a gross basis:					
Exchange rate contracts					
– Outflow	(23,016,331)	(10,958,673)	(32,065,178)	(108,494)	(66,148,676)
– Inflow	22,987,545	10,936,541	32,035,467	108,494	66,068,047
Interest rate contracts					
– Outflow	–	(1,195)	(3,293)	(2,160)	(6,648)
– Inflow	–	1,195	3,293	2,160	6,648

3.3.6 Off-balance sheet items

The contractual maturity profile of off-balance sheet items including contingent liabilities and commitments is included in Note 35.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

(i) Balances with banks and placements with banks

Balances with banks and placements with banks include inter-bank placements and are stated net of impairment allowances. The maturities of these financial assets are within one year. The carrying amount at the reporting date approximates their fair value.

(ii) Loans and advances to customers

Loans and advances are stated net of impairment allowances. An insignificant portion of loans and advances to customers bears interest at fixed rate. The carrying amount at the reporting date approximates their fair value.

(iii) Investment securities at amortised cost

The fair value for investment securities at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. For the carrying value of investment securities at amortised cost, please refer to Note 22. The fair value of investment securities at amortised cost is classified under Level 1 (2021: HK$1,369,774,000, 2020: HK$344,486,000) and Level 2 (2021: HK$196,986,000, 2020: Nil) in the fair value hierarchy. Please refer to Note 3.4(b) for the definition of fair value hierarchy.

(iv) Deposits and balances from banks and deposits from customers

Substantially all the deposits and balances from banks and deposits from customers will mature within 1 year from the reporting date. Hence, the carrying amount at the reporting date approximates their fair value.

(v) Subordinated debts

The fair value of subordinated debts of HK$4,429,411,000 (2020: HK$4,496,447,000) is classified under Level 2 in the fair value hierarchy.

(b) Fair value hierarchy

Valuation governance

The Group has in place fair valuation policy to ensure adequate governance and control processes for the designation and valuation of financial instruments to be measured at fair value for financial reporting, risk management and regulatory capital purposes. The valuation process is conducted by control units independent of risk taking units.

The Group is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, funds and debt securities on exchanges, exchange-traded derivative contracts and paper gold.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes instruments such as over-the-counter derivative contracts and unlisted debt securities. Observable parameters that are used as input include market data such as interest rate yield curves and exchange rate implied volatilities.

Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes unlisted equity securities and unlisted debt securities with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Recurring fair value measurement

As at 31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	3,123	1,680,152	–	1,683,275
Equity securities	410,434	–	10,224	420,658
Funds	–	–	–	–
Others	–	–	–	–
Derivative financial instruments				
Exchange rate contracts	–	316,699	–	316,699
Interest rate contracts	–	140	–	140
Equity contracts	491	–	–	491
Investment securities at fair value through other comprehensive income				
Debt securities	37,308,504	40,192,341	2,874	77,503,719
Equity securities	3,869,194	–	66,080	3,935,274
Total Assets	41,591,746	42,189,332	79,178	83,860,256
Derivative financial instruments				
Exchange rate contracts	–	250,945	–	250,945
Interest rate contracts	–	140	–	140
Equity contracts	–	–	–	–
Total Liabilities	–	251,085	–	251,085

As at 31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	144,854	1,929,741	–	2,074,595
Equity securities	101,696	–	8,722	110,418
Funds	13,735	–	–	13,735
Others	3	–	–	3
Derivative financial instruments				
Exchange rate contracts	–	841,615	–	841,615
Interest rate contracts	–	531	–	531
Equity contracts	–	–	–	–
Investment securities at fair value through other comprehensive income				
Debt securities	40,641,517	30,867,295	2,874	71,511,686
Equity securities	4,112,883	–	64,474	4,177,357
Total Assets	45,014,688	33,639,182	76,070	78,729,940
Derivative financial instruments				
Exchange rate contracts	–	923,745	–	923,745
Interest rate contracts	–	531	–	531
Equity contracts	393	–	–	393
Total Liabilities	393	924,276	–	924,669

There were no significant transfers of financial assets or liabilities between level 1 and level 2 fair value hierarchy classifications.

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Level 2 fair values of unlisted debt securities are determined based on quotes from brokers. The most significant input is discount rate of the instruments.

Level 2 fair values of foreign exchange rate contracts and interest rate contracts are determined using the appropriate foreign exchange rates, interest rate yield curves and where applicable, the implied option volatility at the reporting date, with the expected cash-flow discounted back to present value.

Level 3 fair values of unlisted equity securities and debentures are determined based on valuation techniques using significant unobservable inputs, which includes the market comparison approach and the dividend discount approach. The fair value is affected by the price to book ratio of appropriate comparables or dividend growth rate.

If the significant unobservable inputs would be shifted by +/– 5%, the impact on other comprehensive income would be increased by HK$1,732,000 (2020: HK$995,000) or decreased by HK$1,716,000 (2020: HK$794,000) and profit or loss would be increased/decreased by HK$511,000 (2020: HK$436,000) respectively.

The following table presents the changes in level 3 instruments for the years ended 31 December 2020 and 2021 respectively.

	Financial assets at fair value through profit or loss		Investment securities at fair value through other comprehensive income		
	Equity securities	Total	Equity securities	Debt securities	Total
As at 1 January 2020	7,194	7,194	61,118	2,874	63,992
Total gains					
– Profit	1,528	1,528	–	–	–
– Other comprehensive income	–	–	695	–	695
Exchange adjustments	–	–	2,661	–	2,661
As at 31 December 2020 and 1 January 2021	8,722	8,722	64,474	2,874	67,348
Total gains					
– Profit	1,502	1,502	–	–	–
– Other comprehensive income	–	–	710	–	710
Exchange adjustments	–	–	896	–	896
As at 31 December 2021	10,224	10,224	66,080	2,874	68,954

(All amounts in HK dollar thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- To comply with the capital requirements under the Banking (Capital) Rules ("BCR") of the Banking Ordinance;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the BCR. The required information is filed with the Hong Kong Monetary Authority ("HKMA") periodically.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the statutory minimum ratio. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission.

The regulatory capital requirements are strictly observed when managing economic capital. The regulatory capital of the Group comprises the following:

- Common Equity Tier 1 ("CET1") capital and Tier 1 capital: share capital, general reserve, investment revaluation reserve and retained earnings; and
- Tier 2 capital: subordinated debts, Stage 1 and Stage 2 credit impairment allowances and regulatory reserve.

	2021	2020
CET1 capital ratio	18.2%	16.9%
Tier 1 capital ratio	18.2%	16.9%
Total capital ratio	21.5%	20.1%

3.6 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all material products, activities, processes and systems. The Compliance and Operational Risk Management Committee oversees the Group's operational risk to ensure the operations are in accordance with the controls and procedures laid down in the operational risk management policy approved by the Risk Committee. The Operational Risk Management Department is responsible for the central operational risk management function. Policies and procedures have been established to control exposures and to identify operational risk factors. Insurance policies are taken to mitigate unforeseeable operational risk. A Business Continuity Plan is established to ensure the Group's ability to operate on an ongoing basis and limit losses in the event of severe business disruption, particularly where the Group's physical, telecommunication, or information technology infrastructures have been damaged or made inaccessible.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.7 Interest rate benchmark reform transition

Preparation for the transition

Following the decision by global regulators to phase out interbank offered rates ("IBORs") and replace them with risk-free rates as alternative reference rates ("ARRs"), the Group put in place detailed plans, processes and procedures for a smooth transition from IBOR to ARR products. An IBOR Transition Task Force has been established to execute the measures in preparation for the cessation of IBOR.

For all legacy IBOR-linked contracts with maturity after the expected IBOR cessation, the Group has revised agreements with clients to the contract amendment for fallback clauses or replacement of IBOR benchmarks by ARR or other eligible rates. Starting from 2022, the Group will no longer grant new IBOR contracts.

The Group has been developing its product capabilities to offer ARR products during the year. The Group has since launched ARR-referenced trade finance, loans and debt securities products. Necessary systems and operational changes to facilitate an orderly transition have been implemented to enable the Group to meet the regulatory milestones.

Risk for the transition

The Group is exposed to various risks arising from the IBOR Reform as the Group brings about the transition away from IBOR, including but not limited to the following:

- Conduct Risk arising from negotiations with clients and market counterparties to amend existing transactions or contracts, and potentially also leads to Legal and Reputational Risk.

- Financial Risk arising from the potential economic loss to both the Group and the clients due to the market disruption and legal actions caused by IBOR Reform.

- Valuation Risk and Liquidity Risk arising from the potential market illiquidity if the IBOR markets become less liquid and the ARR markets are yet to become liquid and observable.

- Operational Risk arising from the changes to and operational readiness of the Information Technology and trading systems and new processes, and the potential risk of payment disruption.

The Group continues to monitor, address and mitigate all such risks arising from this industry-wide transition.

Exposures to Interbank Offered Rates

The table below shows the outstanding amounts of financial instruments referencing the interest rate benchmarks that have yet to transit to ARR as at 31 December 2021, excluding the financial instruments that will expire before the transition date.

As at 31 December 2021	Gross amount / Notional amount		
(In HK dollar thousands)	Non-derivatives financial assets	Non-derivatives financial liabilities	Derivative contracts
USD LIBOR	9,086,000	–	–

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates, and management judgements which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality in amount.

Measurement of the expected credit loss ("ECL") allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3.1.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Assessing data limitation and model uncertainty, and determining post model adjustments.

Determining the lease term of a right-of-use asset

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, no revisions were made to the lease terms to reflect the effect of exercising extension and termination options.

5 SEGMENT REPORTING

(a) By operating segment

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

For the purpose of assessing performance of business activity by class, the allocation of revenue, besides the direct revenue generated by the business, also includes the benefits of funding resources derived from the other businesses by way of internal fund transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the class of business and internal allocation of management overheads. Asset allocation is based on the assets directly attributable to the class of business and internal allocation of assets.

The Group is engaged predominantly in banking and related financial activities. It comprises retail and corporate banking, trade finance, treasury and other classes of business.

Retail and corporate banking – incorporating banking services to individual and corporate customers such as current accounts, savings accounts, time deposits, safe deposit box, credit and debit cards, loans and other credit facilities.

Trade finance – incorporating import and export bills services, invoice financing and invoice discounting.

Treasury – conducting treasury operations for trading and investment purposes such as foreign exchange, money market and capital market activities and providing treasury products such as yield enhancement and hedging products to retail and corporate customers.

The "Others" business mainly comprises remittance, share dealing, provision of trustee, wealth management and insurance services.

(All amounts in HK dollar thousands unless otherwise stated)

5 SEGMENT REPORTING (CONTINUED)

(a) By operating segment (Continued)

2021	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	3,317,304	51,657	267,567	16,037	3,652,565
Non-interest income	249,097	84,504	405,523	816,209	1,555,333
Operating income	3,566,401	136,161	673,090	832,246	5,207,898
Operating expenses	(992,568)	(99,100)	(141,181)	(463,807)	(1,696,656)
Operating profit before credit impairment losses	2,573,833	37,061	531,909	368,439	3,511,242
Credit impairment losses	(16,826)	(4,060)	(8,263)	(261)	(29,410)
Operating profit after credit impairment losses	2,557,007	33,001	523,646	368,178	3,481,832
Share of net profits of associates and joint venture	–	–	–	61,393	61,393
Profit before income tax (after taking into account internal fund transfers and cost allocation)	2,557,007	33,001	523,646	429,571	3,543,225
Income tax expense	566,441	3,322	89,060	(21,228)	637,595
Depreciation expenses	106,644	10,349	14,504	111,084	242,581
Total assets	96,266,483	3,726,559	128,253,615	5,686,656	233,933,313
Total liabilities	184,295,313	65,690	14,203,556	1,147,387	199,711,946

2020	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	2,703,009	56,631	728,178	63,841	3,551,659
Non-interest income	308,714	84,251	338,607	786,724	1,518,296
Operating income	3,011,723	140,882	1,066,785	850,565	5,069,955
Operating expenses	(876,132)	(86,798)	(107,936)	(550,273)	(1,621,139)
Operating profit before credit impairment losses	2,135,591	54,084	958,849	300,292	3,448,816
Credit impairment losses	(121,186)	1,241	(5,242)	(253)	(125,440)
Operating profit after credit impairment losses	2,014,405	55,325	953,607	300,039	3,323,376
Share of net profits of associates and joint venture	–	–	–	45,609	45,609
Profit before income tax (after taking into account internal fund transfers and cost allocation)	2,014,405	55,325	953,607	345,648	3,368,985
Income tax expense	453,367	7,135	164,367	2,069	626,938
Depreciation expenses	90,683	9,940	9,957	135,122	245,702
Total assets	101,947,517	3,415,378	114,868,008	6,501,245	226,732,148
Total liabilities	178,700,531	62,743	13,566,895	1,907,180	194,237,349

(All amounts in HK dollar thousands unless otherwise stated)

5 SEGMENT REPORTING (CONTINUED)

(b) By geographical area

The following tables provide information by geographical area, which is determined with reference to the location of the principal operations of the branches and subsidiaries of the Group.

2021

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	199,368,542	183,221,333	44,450,230	4,027,942	2,497,041	152,020
United States	29,056,681	12,729,630	4,234,800	1,087,363	973,996	3,481
United Kingdom	5,508,090	3,760,983	141,964	92,593	72,188	9,173
Total	233,933,313	199,711,946	48,826,994	5,207,898	3,543,225	164,674

2020

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong and Mainland China	191,902,931	181,056,433	44,027,519	3,948,293	2,418,235	183,880
United States	29,344,970	10,593,085	6,721,216	1,038,638	899,514	2,934
United Kingdom	5,484,247	2,587,831	467,215	83,024	51,236	274
Total	226,732,148	194,237,349	51,215,950	5,069,955	3,368,985	187,088

6 NET INTEREST INCOME

Interest income	2021	2020
Balances with banks and placements with banks	148,168	410,197
Investment securities at amortised cost	1,335	16,572
Investment securities at fair value through other comprehensive income	1,212,341	1,497,748
Loans and advances to customers	3,389,336	3,748,904
Others	5,796	6,260
Interest income on financial assets that are not measured at fair value through profit or loss	4,756,976	5,679,681

Interest expense	2021	2020
Deposits and balances from banks	74,313	148,655
Deposits from customers	831,795	1,778,146
Subordinated debts	192,791	190,413
Lease liabilities	4,076	8,702
Others	1,436	2,106
Interest expense on financial liabilities that are not measured at fair value through profit or loss	1,104,411	2,128,022

(All amounts in HK dollar thousands unless otherwise stated)

7 NET FEE AND COMMISSION INCOME

	2021	2020
Fee and commission income		
Bills	71,463	69,258
Nominees, custodian and securities brokerage	283,756	278,895
Investment products	134,474	132,452
Remittance	60,257	60,653
Credit cards	45,627	38,271
Retail banking	48,522	48,856
Insurance	46,933	39,009
Loans and advances and facility fees	145,676	208,981
Trust and other commissions	3,479	3,454
Total fee and commission income	840,187	879,829
Less: fee and commission expense	(53,630)	(56,923)
Net fee and commission income	786,557	822,906
Of which:		
Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at fair value through profit or loss		
– fee and commission income	262,766	316,510
– fee and commission expense	7,293	11,263
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	24,288	22,801

(All amounts in HK dollar thousands unless otherwise stated)

8 NET TRADING INCOME

	2021	2020
Foreign exchange	316,226	158,091
Interest rate instruments	11,237	20,606
Equities	(26,790)	19,875
Other trading income	(350)	8,379
	300,323	206,951

"Foreign exchange" trading income includes gains and losses from spot, forward and option contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship. "Interest rate instruments" trading income includes the results of trading in government securities, corporate debt securities, money market instruments and interest rate swaps. "Equities" trading income includes the results of trading in equity securities and derivatives.

9 OTHER OPERATING INCOME

	2021	2020
Gross rental income from investment properties	59,879	71,794
Net losses from disposal of equipment	(5)	(176)
Others	73,816	76,677
	133,690	148,295

Direct operating expenses arising from investment properties of HK$24,000 (2020: HK$869,000) are included in premises management expenses (Note 11).

10 NET EARNED INSURANCE PREMIUM AND NET INSURANCE CLAIMS INCURRED AND MOVEMENT IN POLICYHOLDERS' LIABILITIES

	2021	2020
Insurance premium revenue	48,168	54,962
Insurance premium ceded to reinsurers	(10,353)	(11,370)
	37,815	43,592

The related net insurance claims incurred and movement in policyholders' liabilities of HK$25,957,000 (2020: HK$32,058,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK$1,974,000 (2020: HK$3,524,000).

(All amounts in HK dollar thousands unless otherwise stated)

11 OPERATING EXPENSES

	2021	2020
Auditor's remuneration		
Audit services (Note a)	10,692	9,879
Non-audit-related services (Note b)	6,870	4,146
Premises management expenses	45,158	44,499
Depreciation expenses		
Properties and equipment	123,050	113,554
Right-of-use assets	110,637	123,254
Investment properties	8,894	8,894
Employee benefit expenses		
Wages and salaries and other costs (Note c)	1,010,439	930,789
Pension costs – defined contribution schemes	68,662	70,807
Expenses relating to short-term and low-value leases	2,138	2,441
Information technology and communications	87,507	72,061
Legal and consultancy	15,740	32,335
Printing, stationery and postage	22,315	23,313
Promotion and advertising	34,562	41,524
Others	149,992	143,643
	1,696,656	1,621,139

Note a: The above auditor's remuneration for audit services represents the fee for the audit of the Group's financial information for the interim and annual period to comply with the statutory and regulatory requirements in Hong Kong and Taiwan.

Note b: The above fee for non-audit-related services includes the fee for the review under Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" for the first and third quarter results of the Group in accordance with the regulatory requirements of the ultimate holding company in Taiwan.

Note c: Employee benefit expenses include directors' emoluments (Note 13(a)). In 2021, the Group received a subsidy from Financial Industry Recruitment Scheme for Tomorrow under the Hong Kong Government's Antiepidemic Fund amounting to HK$2,620,000 which was applied to salaries expenses for the year. In 2020, the Bank received a subsidy from the Employment Support Scheme granted by the Hong Kong Government amounting to HK$44,771,000 which was applied to salaries expenses for the period from September 2020 to November 2020.

(All amounts in HK dollar thousands unless otherwise stated)

12 CREDIT IMPAIRMENT LOSSES

	2021	2020
Loans and advances to customers	21,126	111,238
Balances with banks and placements with banks	1,522	6,080
Investment securities	6,994	4,494
Other assets	(149)	930
Loan commitments and financial guarantee contracts	(83)	2,698
	29,410	125,440

13 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The emoluments of the Directors of the Bank disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are set out below:

	2021	2020
Fees	8,800	8,250
Basic salaries, allowances and bonus	29,365	26,732
Contributions to retirement benefits schemes	1,307	1,307
	39,472	36,289

(b) Directors' material interests in transactions, arrangements or contracts

In 2019, the Bank entered into a contract with Hanison Contractors Limited ("Hanison") as the main contractor for a sum of HK$452,880,000 relating to the redevelopment of West Point Branch where Mr. Johnson M. D. Cha is a common director of the Bank and Hanison Construction Holdings Ltd., the holding company of Hanison.

(All amounts in HK dollar thousands unless otherwise stated)

14 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the statement of profit or loss represents:

	2021	2020
Current income tax:		
– Hong Kong profits tax	351,908	349,678
– Overseas taxation	313,901	282,822
– Over provisions in respect of prior years	(29,881)	(4,458)
Total current income tax	635,928	628,042
Deferred income tax:		
– Hong Kong deferred tax	1,744	(1,937)
– Overseas deferred tax	(77)	833
Total deferred income tax	1,667	(1,104)
Income tax expense	637,595	626,938

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rates of the countries in which the Group operates as follows:

	2021	2020
Profit before tax	3,543,225	3,368,985
Tax calculated at domestic tax rates applicable to profits in the respective countries	738,484	688,686
Tax effects of:		
Income not subject to tax	(86,070)	(72,160)
Expenses not deductible for tax purposes	15,062	14,870
Over provisions in respect of prior years	(29,881)	(4,458)
Income tax expense	637,595	626,938

15 DIVIDEND

The dividends paid in 2021 and 2020 were HK$313,000,000 (HK$15.65 per share) and HK$940,000,000 (HK$47 per share) respectively. A dividend in respect of the year ended 31 December 2021 of HK$15.65 per share, amounting to a total dividend of HK$313,000,000, is to be proposed at the Annual General Meeting on 20 April 2022. These financial statements do not reflect this dividend proposed.

	2021	2020
Proposed final dividend of HK$15.65 (2020: HK$15.65) per ordinary share	313,000	313,000

(All amounts in HK dollar thousands unless otherwise stated)

16 CASH AND BALANCES WITH BANKS

	2021	2020
Cash in hand	817,858	731,815
Balances with central banks and the Hong Kong Monetary Authority	2,904,044	4,223,675
Balances with banks	26,965,504	25,040,710
	30,687,406	29,996,200
Less: Stage 1 credit impairment allowances	(1,819)	(946)
	30,685,587	29,995,254
Gross amount of cash and balances with banks	30,687,406	29,996,200
Less: Amount with an original maturity beyond 3 months	(2,259,342)	(3,594,966)
Amount included in cash and cash equivalents	28,428,064	26,401,234

Included in the gross amount of cash and balances with banks, HK$261,734,000 (2020: HK$299,931,000) were deposited in central banks or designated banks as at 31 December 2021, to comply with the statutory requirements of respective jurisdiction in which the Group is operating the business, of which HK$137,896,000 (2020: HK$119,607,000) were included in cash and cash equivalents.

17 PLACEMENTS WITH BANKS

	2021	2020
Placements with banks maturing between 1 and 12 months	15,479,622	9,239,840
Less: credit impairment allowances		
– Stage 1	(943)	(298)
– Stage 3	–	(5,445)
	15,478,679	9,234,097
Gross amount of placements with banks	15,479,622	9,239,840
Less: Amount with an original maturity beyond 3 months	(13,565,019)	(8,141,437)
Amount included in cash and cash equivalents	1,914,603	1,098,403

Included in the gross amount of placements with banks, HK$335,327,000 (2020: HK$319,886,000) were deposited with designated banks in the People's Republic of China as at 31 December 2021, to comply with the local statutory requirement, of which HK$335,327,000 (2020: HK$186,053,000) were included in cash and cash equivalents.

As at 31 December 2021, no placement with bank (2020: HK$5,445,000) was classified as Stage 3.

(All amounts in HK dollar thousands unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

	2021	2020
Gross loans and advances to customers	96,422,010	101,738,494
Less: credit impairment allowances		
– Stage 1	(288,298)	(326,031)
– Stage 2	(174,029)	(118,861)
– Stage 3	(53,457)	(45,663)
	95,906,226	101,247,939
Gross trade bills and other eligible bills, included within gross loans and advances to customers	484,716	430,587
Less: credit impairment allowances on trade bills		
– Stage 1	(361)	(234)
– Stage 2	(32)	(47)
	484,323	430,306

The Group accepted listed securities at fair value of HK$2,971,636,000 (2020: HK$3,347,508,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
Debt securities		
Listed in Hong Kong	–	23,361
Listed outside Hong Kong	3,123	121,493
Unlisted	1,680,152	1,929,741
Total debt securities	1,683,275	2,074,595
Equity securities		
Listed in Hong Kong	345,107	70,354
Listed outside Hong Kong	65,327	31,342
Unlisted	10,224	8,722
Total equity securities	420,658	110,418
Funds		
Listed in Hong Kong	–	13,735
Total funds	–	13,735
Others	–	3
Total	2,103,933	2,198,751
Type of issuer:		
Sovereigns	–	80,230
Public sector entities	20,334	17,682
Banks	5,933	18,560
Corporates	2,077,666	2,082,279
	2,103,933	2,198,751

As at 31 December 2021, financial assets at fair value through profit or loss amounting to HK$1,680,152,000 (2020: HK$1,891,002,000) have been pledged to a shareholder of the Bank for its provision of the credit facilities of HK$779,830,000 (2020: HK$1,550,440,000) to the Bank's branches in the United States.

(All amounts in HK dollar thousands unless otherwise stated)

20 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

As at 31 December 2021

		Fair values	
	Contract amount	Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	88,109,435	316,699	(250,945)
Interest rate contracts	80,000	140	(140)
Equity contracts	34,686	491	–
Total recognised derivative assets/(liabilities)		317,330	(251,085)

As at 31 December 2020

		Fair values	
	Contract amount	Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts	138,532,505	841,615	(923,745)
Interest rate contracts	140,000	531	(531)
Equity contracts	13,217	–	(393)
Total recognised derivative assets/(liabilities)		842,146	(924,669)

	Credit risk weighted amount	
	2021	2020
Derivatives held for trading	909,736	1,564,575

The contract amounts of these instruments indicate the volume of transactions outstanding as at the reporting date, they do not represent the amounts at risk.

The credit risk weighted amounts as at 31 December 2021 are calculated in accordance with the standardised (counterparty credit risk) approach (31 December 2020: current exposure method) as stipulated in the Banking (Capital) Rules.

The above fair values have not taken into account the effect of bilateral netting arrangements and accordingly the amounts disclosed are shown on a gross basis.

(All amounts in HK dollar thousands unless otherwise stated)

20 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Group uses the following derivative strategies:

– Trading purposes (customer needs)
The Group offers its customers derivatives in connection with their risk management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, the Group considers the customers' suitability for the risk involved, and the business purpose for the transaction. The Group also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.

– Trading purposes (own account)
The Group trades derivatives for its own account. These derivatives entered into in order to take proprietary positions. Trading limits and price verification controls are key aspects of this activity.

21 INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021	2020
Debt securities		
Listed in Hong Kong	15,298,122	16,029,366
Listed outside Hong Kong	14,735,126	19,517,159
Unlisted	47,470,471	35,965,161
Total debt securities	77,503,719	71,511,686
Equity securities		
Listed outside Hong Kong	3,869,194	4,112,883
Unlisted	66,080	64,474
Total equity securities	3,935,274	4,177,357
Total	81,438,993	75,689,043
Type of issuer:		
Sovereigns	7,409,943	9,195,653
Public sector entities	3,724,581	3,198,389
Banks	39,396,395	34,634,305
Corporates	30,908,074	28,660,696
	81,438,993	75,689,043

Note: As at 31 December 2021, equity securities designated at fair value through other comprehensive income amounting to HK$3,935,274,000 (2020: HK$4,177,357,000) were for long term investment purpose, of which HK$3,717,703,000 (2020: HK$3,983,598,000) were the fair value of the Bank's investment in Bank of Shanghai, China. In addition, unlisted Exchange Fund Bills at fair value through other comprehensive income of HK$5,997,615,000 (2020: HK$3,999,737,000) were pledged to the Hong Kong Monetary Authority to facilitate settlement operations. There were no related liabilities at the year end.

(All amounts in HK dollar thousands unless otherwise stated)

22 INVESTMENT SECURITIES AT AMORTISED COST

	2021	2020
Debt securities		
Listed in Hong Kong	1,029,409	–
Listed outside Hong Kong	344,490	344,675
Unlisted	199,792	–
	1,573,691	344,675
Less: Stage 1 credit impairment allowances	(56)	(5)
	1,573,635	344,670
Type of issuer:		
Sovereigns	1,373,885	344,670
Corporates	199,750	–
	1,573,635	344,670

As at 31 December 2021, certain of the Bank's branches in the United States have pledged investment securities at amortised cost amounting to HK$344,490,000 (2020: HK$344,675,000) to the State of California and with the Office of the Comptroller of the Currency in compliance with local regulatory requirements. In addition, listed Exchange Fund Notes at amortised cost of HK$1,029,409,000 (2020: Nil) were pledged to the Hong Kong Monetary Authority to facilitate settlement operations. There were no related liabilities at the year end.

23 PROPERTIES FOR SALE

	2021	2020
Property development		
Leasehold land held for development for sale	381,188	381,188
Building development cost	302,736	210,230
	683,924	591,418

The Group has undertaken a project to redevelop the properties located in West Point. As at 31 December 2021, the net book amount of land and building incurred for this project were HK$855,458,000 (2020: HK$736,297,000), of which HK$683,924,000 (2020: HK$591,418,000) were classified as properties held for sale while the remaining HK$171,534,000 (2020: HK$144,879,000) as bank premises under development (Note 26) in accordance with the redevelopment plan.

(All amounts in HK dollar thousands unless otherwise stated)

24 SUBSIDIARIES

The following is a list of the subsidiaries as at 31 December 2021:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	2021 Total assets	2021 Total equity	2020 Total assets	2020 Total equity
Shanghai Commercial Bank (Nominees) Limited	Hong Kong	Nominee services Hong Kong	100 ordinary shares	100%[1]	10	10	10	10
Shanghai Commercial Bank Trustee Limited	Hong Kong	Trustee services Hong Kong	1,000 ordinary shares	60%[2]	15,926	15,727	15,865	15,643
Shacom Futures Limited	Hong Kong	Advising and dealing in futures contracts Hong Kong	600,000 ordinary shares	100%[1]	93,674	56,092	105,785	56,750
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	100%[1]	3,243,581	11,620	3,015,962	11,186
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US$1 each	100%[1]	30,745	4,503	26,340	3,645
Shacom Property (NY), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	100%[1]	5,533	5,533	5,533	5,533
Shacom Property (CA), Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	100%[1]	2,669	2,669	2,677	2,677
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	100%[1]	1,082,282	357	1,081,921	(29)
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	100%[1]	29,246	22,143	29,608	21,987
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	100%[1]	3,682	1,908	2,755	1,882
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	2,000,000 ordinary shares[3]	100%[1]	387,246	266,846	420,520	165,686
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	100%[1]	911	607	835	589

(All amounts in HK dollar thousands unless otherwise stated)

24 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	2021 Total assets	2021 Total equity	2020 Total assets	2020 Total equity
Paofoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	60%[2]	335,194	225,846	328,707	213,276
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%[1]	6	(180)	6	(163)
Glory Step Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%	386,297	(25,403)	360,593	(21,462)
Silver Wisdom Westpoint Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of US$1 each	100%	1,148,006	(40,902)	1,041,801	(24,857)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	305,267	122,662	310,013	118,441
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	306,274	123,596	310,998	119,356
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary share of HK$1 each	100%[1]	307,260	124,722	311,960	120,463

1 Ordinary share capital is held directly by the Bank.

2 60% of ordinary share capital is held directly by the Bank and 40% of ordinary share capital is held by non-controlling interests in equity.

3 On 27 September 2021, the share capital of Shacom Securities Limited increased by HK$100,000,000 to HK$200,000,000 and the Bank subscribed its new capital to maintain 100% of equity interests and voting rights of Shacom Securities Limited.

(All amounts in HK dollar thousands unless otherwise stated)

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

Movement in investments in associates and joint venture

	2021			2020		
	Investment in associates	Investment in joint venture	Total	Investment in associates	Investment in joint venture	Total
As at 1 January	404,759	38,721	443,480	378,779	38,884	417,663
Share of profits, net of tax	61,587	(194)	61,393	45,737	(128)	45,609
Dividends paid	(28,440)	(35)	(28,475)	(26,100)	(35)	(26,135)
Other equity movement	(9,240)	(329)	(9,569)	6,343	–	6,343
As at 31 December	428,666	38,163	466,829	404,759	38,721	443,480

The Group's interests in its associates and joint venture for the years ended 2021 and 2020, which are unlisted, are as follows:

Name of entity	Principle activities	Place of incorporation and operation	Proportion of voting power	% of ownership interest	Nature of relationship
Bank Consortium Holding Limited	Investment holding and provision of trustee, administration and custodian services for retirement schemes	Hong Kong	14.29% of "A" shares	13.33%	Associate
BC Reinsurance Limited	Underwriting of general reinsurance business	Hong Kong	21%	21%	Associate
Hong Kong Life Insurance Limited	Underwriting of life insurance business	Hong Kong	16.67%	16.67%	Associate
Joint Electronic Teller Services Limited	Provision of ATM network services	Hong Kong	20% of "A" shares	2.74% (2020: 2.67%)	Joint venture

(All amounts in HK dollar thousands unless otherwise stated)

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

Summarised financial information for associates and joint venture which are accounted for using the equity method is set out below:

2021

Name	Assets	Liabilities	Revenue	Profit/(loss)	Other comprehensive loss	Total comprehensive income/(loss)	Dividends received
Bank Consortium Holding Limited	1,124,997	93,806	904,665	259,225	–	259,225	24,240
BC Reinsurance Limited	956,343	399,821	161,467	50,853	(320)	50,533	4,200
Hong Kong Life Insurance Limited	16,610,768	15,419,509	1,855,572	98,064	(55,034)	43,030	–
Joint Electronic Teller Services Limited	400,841	51,712	105,673	(7,145)	(12,000)	(19,145)	35
	19,092,949	15,964,848	3,027,377	400,997	(67,354)	333,643	28,475

2020

Name	Assets	Liabilities	Revenue	Profit/(loss)	Other comprehensive income	Total comprehensive income/(loss)	Dividends received
Bank Consortium Holding Limited	1,049,484	97,517	813,925	250,263	–	250,263	24,000
BC Reinsurance Limited	918,920	392,931	158,911	51,935	824	52,759	2,100
Hong Kong Life Insurance Limited	19,457,368	18,309,139	2,770,151	8,776	37,018	45,794	–
Joint Electronic Teller Services Limited	430,271	47,668	111,977	(103)	–	(103)	35
	21,856,043	18,847,255	3,854,964	310,871	37,842	348,713	26,135

Note: The balances with the associates and joint venture arise from normal business transactions and are included in Note 38.

(All amounts in HK dollar thousands unless otherwise stated)

26 PROPERTIES AND EQUIPMENT

	Leasehold land	Bank premises	Furniture, fittings and equipment	Property under development: Leasehold land	Property under development: Development cost	Right-of-use assets	Total
As at 1 January 2020							
Cost	1,391,652	1,075,785	888,175	96,278	16,716	691,488	4,160,094
Accumulated depreciation	(178,204)	(307,555)	(642,172)	(847)	–	(331,302)	(1,460,080)
Net book amount	1,213,448	768,230	246,003	95,431	16,716	360,186	2,700,014
Year ended 31 December 2020							
Opening net book amount	1,213,448	768,230	246,003	95,431	16,716	360,186	2,700,014
Additions	–	3,338	60,247	–	23,826	97,405	184,816
Transfers							
Cost	(130)	–	–	1,545	7,480	–	8,895
Accumulated depreciation	3	–	–	(9)	–	–	(6)
Disposals/write-off/expiry							
Cost	–	–	(20,517)	–	–	(98,334)	(118,851)
Accumulated depreciation	–	–	20,170	–	–	98,109	118,279
Depreciation charge	(17,432)	(24,905)	(71,107)	(110)	–	(123,254)	(236,808)
Exchange adjustments	–	321	161	–	–	335	817
Closing net book amount	1,195,889	746,984	234,957	96,857	48,022	334,447	2,657,156
As at 31 December 2020							
Cost	1,391,522	1,079,650	929,474	97,823	48,022	692,639	4,239,130
Accumulated depreciation	(195,633)	(332,666)	(694,517)	(966)	–	(358,192)	(1,581,974)
Net book amount	1,195,889	746,984	234,957	96,857	48,022	334,447	2,657,156
Year ended December 2021							
Opening net book amount	1,195,889	746,984	234,957	96,857	48,022	334,447	2,657,156
Additions	–	1,952	69,502	–	26,767	62,654	160,875
Adjustments	–	–	–	–	–	(34,341)	(34,341)
Disposals/write-off/expiry							
Cost	–	–	(10,466)	–	–	(77,522)	(87,988)
Accumulated depreciation	–	–	10,444	–	–	77,522	87,966
Depreciation charge	(17,432)	(25,602)	(79,904)	(112)	–	(110,637)	(233,687)
Exchange adjustments	–	423	(43)	–	–	(84)	296
Closing net book amount	1,178,457	723,757	224,490	96,745	74,789	252,039	2,550,277
As at 31 December 2021							
Cost	1,391,522	1,082,228	988,917	97,823	74,789	643,891	4,279,170
Accumulated depreciation	(213,065)	(358,471)	(764,427)	(1,078)	–	(391,852)	(1,728,893)
Net book amount	1,178,457	723,757	224,490	96,745	74,789	252,039	2,550,277

The Group has undertaken a project to redevelop the properties located in West Point. As at 31 December 2021, the net book amount of land and building incurred for this project were HK$855,458,000 (2020: HK$736,297,000), of which HK$683,924,000 (2020: HK$591,418,000) were classified as properties held for sale (Note 23) while the remaining HK$171,534,000 (2020: HK$144,879,000) as bank premises under development in accordance with the redevelopment plan.

As at 31 December 2021, interests in freehold land outside Hong Kong amounted to HK$34,623,000 (2020: HK$34,552,000) are included as bank premises above.

(All amounts in HK dollar thousands unless otherwise stated)

27 INVESTMENT PROPERTIES

	Leasehold land	Buildings	Total
As at 1 January 2020			
Cost	725,305	332,354	1,057,659
Accumulated depreciation	(10,405)	(30,106)	(40,511)
Net book amount	714,900	302,248	1,017,148
Year ended December 2020			
Opening net book amount	714,900	302,248	1,017,148
Additions	–	2,272	2,272
Depreciation charge	(865)	(8,029)	(8,894)
Closing net book amount	714,035	296,491	1,010,526
As at 31 December 2020			
Cost	725,305	334,626	1,059,931
Accumulated depreciation	(11,270)	(38,135)	(49,405)
Net book amount	714,035	296,491	1,010,526
Year ended December 2021			
Opening net book amount	**714,035**	**296,491**	**1,010,526**
Additions	**–**	**1,040**	**1,040**
Depreciation charge	**(866)**	**(8,028)**	**(8,894)**
Closing net book amount	**713,169**	**289,503**	**1,002,672**
As at 31 December 2021			
Cost	**725,305**	**335,666**	**1,060,971**
Accumulated depreciation	**(12,136)**	**(46,163)**	**(58,299)**
Net book amount	**713,169**	**289,503**	**1,002,672**

(a) Fair value measurement of investment properties

As at 31 December 2021, the Group's investment properties were valued at HK$2,843,000,000 (2020: HK$2,967,000,000) by an independent firm of chartered surveyors, Cushman & Wakefield Limited, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The valuations were performed on an open market value basis.

The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13 "Fair value measurement" and takes into account the highest and best use of the property from the perspective of market participants.

The major key input used in valuing the investment properties was the unit sale rate taking into account of time, location, and individual factors such as size and levels of buildings, which ranged from HK$27,000 (2020: HK$27,000) to HK$82,000 (2020: HK$84,000) per square foot. A decrease in unit sale rate would result in the decrease in fair value measurement of the investment properties by the same percentage and vice versa.

Investment properties are classified as Level 3 under the fair value hierarchy as defined in HKFRS 13 "Fair value measurement" as at 31 December 2021 and 2020.

(All amounts in HK dollar thousands unless otherwise stated)

27 INVESTMENT PROPERTIES (CONTINUED)

(b) Information about Level 3 fair value measurement

	Valuation technique(s)	Unobservable input(s)	Range 2021	Range 2020
Investment properties	Income capitalisation approach	Market yields	2.5% to 2.75%	2.5% to 2.75%
		Market rental	HK$61 to HK$187 per square foot	HK$62 to HK$192 per square foot

For investment properties of which the fair value is determined using the income capitalisation approach, the assessment is conducted on the basis of capitalisation of net income with due allowance for outgoings and reversionary income potential. The fair value measurement is positively correlated to the market rental and inversely correlated to the market yields.

(c) Operating lease commitments as a lessor

Where a group company is the lessor, the future minimum lease receivables under non-cancellable leases are as follows:

	2021	2020
Not later than 1 year	41,945	63,072
1 to 2 years	26,112	32,434
2 to 5 years	18,167	4,280
	86,224	99,786

The Group leases its investment properties under operating lease arrangements, with leases typically for a period from 2 to 5 years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

28 OTHER ASSETS

	2021	2020
Accounts receivable and prepayments	751,808	1,537,782
Interest receivable	694,300	707,122
Others	224,915	206,649
	1,671,023	2,451,553
Less: credit impairment allowances		
– Stage 1	(1,405)	(1,532)
– Stage 3	–	(21)
	1,669,618	2,450,000

29 DEPOSITS FROM CUSTOMERS

	2021	2020
Demand deposits and current accounts	19,764,787	18,003,831
Savings deposits	57,883,620	51,696,337
Time, call and notice deposits	105,548,923	107,709,161
Deposits from Hong Kong Government Exchange Fund	389,915	387,610
	183,587,245	177,796,939

(All amounts in HK dollar thousands unless otherwise stated)

30 SUBORDINATED DEBTS

	2021	2020
US$250 million fixed rate subordinated notes issued due 2027 at amortised cost (Note a)	1,939,939	1,927,368
US$300 million fixed rate subordinated notes issued due 2029 at amortised cost (Note b)	2,329,743	2,314,112
	4,269,682	4,241,480

Note a: This represents US$250,000,000 Basel III compliant 10-year subordinated fixed rate notes qualifying as Tier 2 capital of the Bank in accordance with the Banking (Capital) Rules ("BCR"), which are listed on the Hong Kong Stock Exchange. The notes will mature on 29 November 2027 with an optional redemption date falling on 29 November 2022. Interest at 3.75% p.a. is payable semi-annually from the issue date to the optional redemption date. Thereafter, if the notes are not redeemed, the interest rate will be reset and the notes will bear interest at the prevailing 5-year U.S. Treasury Rate plus 170.5 basis points. The Bank may, subject to receiving the prior approval of the Hong Kong Monetary Authority ("HKMA"), redeem the notes at the option of the Bank in whole but not in part, at par either on the optional redemption date or for tax or regulatory reasons at any time prior to maturity of the notes.

Note b: This represents US$300,000,000 Basel III compliant 10-year subordinated fixed rate notes qualifying as Tier 2 capital of the Bank in accordance with the BCR, which are listed on the Hong Kong Stock Exchange. The notes will mature on 17 January 2029 with an optional redemption date falling on 17 January 2024. Interest at 5.00% p.a. is payable semi-annually from the issue date to the optional redemption date. Thereafter, if the notes are not redeemed, the interest rate will be reset and the notes will bear interest at the prevailing 5-year U.S. Treasury Rate plus 250 basis points. The Bank may, subject to receiving the prior approval of the HKMA, redeem the notes at the option of the Bank in whole but not in part, at par either on the optional redemption date or for tax or regulatory reasons at any time prior to maturity of the notes.

31 OTHER LIABILITIES

	2021	2020
Accounts payable and accruals	580,420	1,283,202
Deferred income	120,108	126,208
Interest payable	255,400	340,501
Lease liabilities	266,933	354,380
Liabilities for insurance contracts (Note)	104,261	109,689
Margin deposits	308,270	278,607
Stage 1 and Stage 2 credit impairment allowances for undrawn commitments and financial guarantees	14,718	14,801
Others	775,998	698,881
	2,426,108	3,206,269

Note: Amounts recoverable from reinsurance of liabilities under insurance contracts issued amounting to HK$9,212,000 (2020: HK$10,400,000) are included in "Others" in Note 28.

(All amounts in HK dollar thousands unless otherwise stated)

32 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Deferred income tax assets

	Credit impairment allowances	Accelerated tax depreciation	Fair value gains on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2020	14,945	(3,941)	(3)	17,114	28,115
Credited/(charged) to the statement of profit or loss	10,976	(6,814)	–	(4,946)	(784)
Exchange adjustments	913	(510)	–	(69)	334
Reclassified from deferred income tax liabilities	2	1	–	–	3
As at 31 December 2020 and 1 January 2021	26,836	(11,264)	(3)	12,099	27,668
(Charged)/credited to the statement of profit or loss	(1,377)	739	–	729	91
Exchange adjustments	651	–	–	77	728
Reclassified from/(to) deferred income tax liabilities	71,373	(40,711)	(3,597)	58	27,123
As at 31 December 2021	97,483	(51,236)	(3,600)	12,963	55,610

Deferred income tax liabilities

	Credit impairment allowances	Accelerated tax depreciation	Fair value (gains)/losses on investment securities at fair value through other comprehensive income	Others	Total
As at 1 January 2020	56,422	(45,183)	(44,253)	14,113	(18,901)
Credited/(charged) to the statement of profit or loss	10,881	(6,013)	–	(2,980)	1,888
Charged to equity	–	–	(92,855)	–	(92,855)
Reclassified to deferred income tax assets	(2)	(1)	–	–	(3)
As at 31 December 2020 and 1 January 2021	67,301	(51,197)	(137,108)	11,133	(109,871)
Credited/(charged) to the statement of profit or loss	4,073	(5,038)	–	(793)	(1,758)
Credited to equity	–	–	133,511	–	133,511
Reclassified (to)/from deferred income tax assets	(71,373)	40,711	3,597	(58)	(27,123)
As at 31 December 2021	1	(15,524)	–	10,282	(5,241)

33 SHARE CAPITAL

	2021	2020
Issued and fully paid: 20,000,000 shares	2,000,000	2,000,000

(All amounts in HK dollar thousands unless otherwise stated)

34 RESERVES ATTRIBUTABLE TO EQUITY HOLDERS

	Regulatory reserve	Investment revaluation reserve	General and other reserves	Total
As at 1 January 2020	935,294	3,264,175	7,179,448	11,378,917
Investment securities at fair value through other comprehensive income	–	(55,419)	–	(55,419)
Currency translation difference arising from overseas operations	4,977	–	91,246	96,223
Share of reserves of associates and joint venture	–	6,170	173	6,343
As at 31 December 2020 and 1 January 2021	**940,271**	**3,214,926**	**7,270,867**	**11,426,064**
Investment securities at fair value through other comprehensive income	**–**	**(934,596)**	**–**	**(934,596)**
Currency translation difference arising from overseas operations	**2,040**	**–**	**31,970**	**34,010**
Share of reserves of associates and joint venture	**–**	**(9,268)**	**(301)**	**(9,569)**
As at 31 December 2021	**942,311**	**2,271,062**	**7,302,536**	**10,515,909**

Nature and purpose of reserves:

(a) Regulatory reserve

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements of overseas branches for prudent supervision purpose. Any movements in the regulatory reserve for Hong Kong operations are made in consultation with the Hong Kong Monetary Authority.

As at 31 December 2021, the regulatory reserves for Hong Kong and overseas branches operations were HK$812,455,000 (2020: HK$812,455,000) and HK$129,856,000 (2020: HK$127,816,000) respectively.

(b) Investment revaluation reserve

Investment revaluation reserve represents the cumulative net change in the fair value of investment securities at fair value through other comprehensive income until these investments are derecognised or impaired as stated in the accounting policy for financial assets (Note 2.6).

(c) General and other reserves

General and other reserves comprise previous years' transfers from retained earnings and translation reserve arising from translation of foreign operations during consolidation and share of changes in equity of associates and joint venture.

(All amounts in HK dollar thousands unless otherwise stated)

35 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Credit commitments

The contract and credit risk weighted amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

Contract amounts	2021	2020
Direct credit substitutes	2,263,738	2,319,494
Trade-related contingencies	1,893,706	2,238,682
Forward forward deposits placed	230,917	–
Other commitments with an original maturity of:		
– under 1 year	1,162,198	1,857,689
– 1 year and over	6,199,238	8,421,031
– unconditionally cancellable	37,077,197	36,379,054
	48,826,994	51,215,950

The contractual maturity profile of credit commitments is analysed as follows:

	2021	2020
No later than 1 year	44,569,609	46,021,692
Later than 1 year and no later than 5 years	2,573,986	3,283,126
Later than 5 years	1,683,399	1,911,132
	48,826,994	51,215,950

	2021	2020
Credit risk weighted amounts	4,958,710	6,222,945

(b) Capital commitments

Capital expenditure for the acquisition of properties and equipment outstanding as at the reporting date but not yet incurred is as follows:

	2021	2020
Contracted but not provided for	260,250	488,368

(c) Other contingent liabilities

The Group is involved in legal actions which are in relation to its normal business operations. No material provision was made for those actions against the Group because the management believes that the Group has adequate grounds to defend against the claimants or the amounts involved in those actions are not expected to be material.

(All amounts in HK dollar thousands unless otherwise stated)

36 OFFSETTING FINANCIAL INSTRUMENTS

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

As at 31 December 2021

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	290,600	–	290,600	(179,219)	(84,395)	26,986
Other assets	230,089	(110,209)	119,880	–	–	119,880
Total	520,689	(110,209)	410,480	(179,219)	(84,395)	146,866

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Liabilities						
Derivative financial instruments	243,356	–	243,356	(179,219)	(52,761)	11,376
Other liabilities	110,263	(110,209)	54	–	–	54
Total	353,619	(110,209)	243,410	(179,219)	(52,761)	11,430

(All amounts in HK dollar thousands unless otherwise stated)

36 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2020

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	518,783	–	518,783	(426,019)	(74,809)	17,955
Other assets	911,567	(700,793)	210,774	–	–	210,774
Total	1,430,350	(700,793)	729,557	(426,019)	(74,809)	228,729

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Liabilities						
Derivative financial instruments	771,893	–	771,893	(426,019)	(263,652)	82,222
Other liabilities	742,441	(700,793)	41,648	–	–	41,648
Total	1,514,334	(700,793)	813,541	(426,019)	(263,652)	123,870

Derivative financial instruments disclosed above are recorded on a gross basis in the statement of financial position. Since master netting agreements have been entered into for these derivative financial instruments, the net settlement amounts if an event of default or other precedent events occurred are disclosed under "Net amounts" to comply with the accounting requirements.

(All amounts in HK dollar thousands unless otherwise stated)

36 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

The tables below reconcile the amounts of derivative financial instruments, net amounts of other assets and other liabilities presented in the statement of financial position.

	2021	2020
Assets		
Net amounts of derivative financial instruments after offsetting as stated above	290,600	518,783
Derivative financial instruments not in scope of offsetting disclosures	26,730	323,363
Total derivative financial instruments	317,330	842,146
Net amounts of other assets after offsetting as stated above	119,880	210,774
Other assets not in scope of offsetting disclosures	1,549,738	2,239,226
Total other assets	1,669,618	2,450,000
Liabilities		
Net amounts of derivative financial instruments after offsetting as stated above	243,356	771,893
Derivative financial instruments not in scope of offsetting disclosures	7,729	152,776
Total derivative financial instruments	251,085	924,669
Net amounts of other liabilities after offsetting as stated above	54	41,648
Other liabilities not in scope of offsetting disclosures	2,426,054	3,164,621
Total other liabilities	2,426,108	3,206,269

37 INFORMATION ABOUT LOANS, QUASI-LOANS AND OTHER DEALINGS IN FAVOUR OF DIRECTORS, CONTROLLED BODIES CORPORATE AND CONNECTED ENTITIES

Balances below are disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G).

	Balance outstanding as at 31 December		Maximum balance during the year	
	2021	2020	2021	2020
Aggregate amount outstanding in respect of principal and interest	36,286	62,904	71,001	68,253

(All amounts in HK dollar thousands unless otherwise stated)

38 RELATED PARTY TRANSACTIONS

A number of banking transactions were entered into with related parties by the Group in the normal course of business and at arm's length basis. The outstanding balances of the related party transactions at the reporting date, and related expense and income for the year are as follows:

2021	Ultimate holding company and fellow subsidiaries	Associates and joint venture	Key management personnel (Note a)	Other related parties (Note b)	Total
Aggregate amounts outstanding at the year end					
– Loans and advances	–	–	34,876	–	34,876
– Cash and balances with banks	14,270	–	–	456,761	471,031
– Deposits and balances from banks and customers	211,617	1,450,922	1,334,881	2,981,816	5,979,236
– Investment securities at fair value through other comprehensive income	151,491	–	–	–	151,491
– Stage 1 and Stage 2 credit impairment allowances	1	3	63	26	93
– Contingent liabilities and other commitments	–	2,000	45,496	–	47,496
Interest income received from related parties	26	–	980	1,562	2,568
Interest expenses paid to related parties	1,811	2,486	5,784	11,500	21,581
Net fee and commission (expense)/income (to)/from related parties	(1,653)	61,813	–	(919)	59,241
Net other operating income/(expense) from/(to) related parties	31	(3,285)	(300)	(4,629)	(8,183)

(All amounts in HK dollar thousands unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

2020

	Ultimate holding company and fellow subsidiaries	Associates and joint venture	Key management personnel (Note a)	Other related parties (Note b)	Total
Aggregate amounts outstanding at the year end					
– Loans and advances	–	–	297,828	–	297,828
– Cash and balances with banks	10,003	–	–	134,825	144,828
– Deposits and balances from banks and customers	457,155	385,642	1,353,581	1,944,110	4,140,488
– Investment securities at fair value through other comprehensive income	129,285	–	–	79,351	208,636
– Stage 1 and Stage 2 credit impairment allowances	–	2	515	18	535
– Contingent liabilities and other commitments	–	2,000	237,608	–	239,608
Interest income received from related parties	136	–	9,437	1,781	11,354
Interest expenses paid to related parties	4,499	5,071	11,875	31,720	53,165
Net fee and commission (expense)/income (to)/from related parties	(2,983)	51,792	–	(1,090)	47,719
Net other operating income/ (expense) from/ (to) related parties	33	(2,768)	(300)	(6,477)	(9,512)

Note a: Include key management personnel and Directors of the Bank and the ultimate holding company, their close family members and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel or Directors.

Note b: Include other shareholders of the Group.

Key management personnel compensation

The compensation for Directors and key management personnel of the Bank is as follows:

	2021	2020
Salaries and other short-term employee benefits	113,040	109,792

(All amounts in HK dollar thousands unless otherwise stated)

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

(a) Statement of Financial Position of the Bank

	As at 31 December	
	2021	2020
ASSETS		
Cash and balances with banks	30,684,194	29,993,830
Placements with banks	15,478,679	9,234,097
Loans and advances to customers	95,906,226	101,247,939
Financial assets at fair value through profit or loss	2,063,083	2,174,451
Derivative financial instruments	317,330	842,146
Investment securities at fair value through other comprehensive income	81,438,993	75,689,043
Investment securities at amortised cost	344,476	344,670
Investments in associates and joint venture	188,000	188,000
Investments in and net amounts due from subsidiaries	3,166,451	1,786,584
Properties and equipment	1,857,120	1,917,237
Investment properties	1,031,818	1,040,100
Deferred income tax assets	57,520	27,662
Other assets	1,573,821	2,322,525
TOTAL ASSETS	234,107,711	226,808,284
LIABILITIES		
Deposits and balances from banks	9,032,550	7,840,334
Deposits from customers	183,587,245	177,796,939
Derivative financial instruments	251,085	924,669
Subordinated debts	4,269,682	4,241,480
Other liabilities	2,329,854	3,007,766
Current income tax liabilities	139,925	117,504
Deferred income tax liabilities	–	104,966
TOTAL LIABILITIES	199,610,341	194,033,658
EQUITY		
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		
Share capital	2,000,000	2,000,000
Retained earnings	21,994,071	19,370,754
Reserves	10,503,299	11,403,872
	34,497,370	32,774,626
TOTAL EQUITY AND LIABILITIES	234,107,711	226,808,284

Approved and authorised for issue by the Board of Directors on 9 March 2022.

Stephen Ching Yen LEE
Chairman

John Con-sing YUNG
Director

Gordon Che Keung KWONG
Director

David Sek-chi KWOK
Managing Director & Chief Executive

(All amounts in HK dollar thousands unless otherwise stated)

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK (CONTINUED)

(b) Reserve movement of the Bank

	Regulatory reserve	Investment revaluation reserve	General reserve	Total
As at 1 January 2020	935,294	3,249,664	7,178,149	11,363,107
Investment securities at fair value through other comprehensive income	–	(55,400)	–	(55,400)
Currency translation difference arising from overseas operations	4,977	–	91,188	96,165
As at 31 December 2020 and 1 January 2021	**940,271**	**3,194,264**	**7,269,337**	**11,403,872**
Investment securities at fair value through other comprehensive income	**–**	**(934,596)**	**–**	**(934,596)**
Currency translation difference arising from overseas operations	**2,040**	**–**	**31,983**	**34,023**
As at 31 December 2021	**942,311**	**2,259,668**	**7,301,320**	**10,503,299**

(All amounts in HK dollar thousands unless otherwise stated)

The Regulatory Disclosures, together with the disclosures in this Annual Report, contain all the disclosures required by the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA").

This Annual Report and the Regulatory Disclosures are prepared according to the Group's disclosure policy. The disclosure policy sets out a robust mechanism for the Group's disclosures of financial information on a legitimate and compliant basis. It depicts the principles and internal control measures to ensure the timeliness, fairness, accuracy, integrity, completeness and legitimacy of financial disclosures.

The following disclosures are prepared under regulatory scope of consolidation to comply with the Banking (Disclosure) Rules and do not form part of the audited financial statements.

1 Key prudential ratios

		31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	32,124,445	31,768,982	31,100,458	30,674,409	30,087,958
2	Tier 1	32,124,445	31,768,982	31,100,458	30,674,409	30,087,958
3	Total capital	37,828,854	37,475,769	36,797,943	36,359,892	35,745,052
Risk Weighted Amounts (RWA)						
4	Total RWA	176,262,604	178,130,531	178,790,004	177,537,392	177,769,676
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	18.2%	17.8%	17.4%	17.3%	16.9%
6	Tier 1 ratio (%)	18.2%	17.8%	17.4%	17.3%	16.9%
7	Total capital ratio (%)	21.5%	21.0%	20.6%	20.5%	20.1%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%)	0.6%	0.6%	0.6%	0.6%	0.6%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total AI-specific CET1 buffer requirements (%)	3.1%	3.1%	3.1%	3.1%	3.1%
12	CET1 available after meeting the AI's minimum capital requirements (%)	12.2%	11.8%	11.4%	11.3%	10.9%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	243,146,840	247,651,760	241,395,524	240,416,220	237,491,724
14	LR (%)	13.2%	12.8%	12.9%	12.8%	12.7%
Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)						
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	61.2%	61.0%	61.1%	58.7%	56.5%
Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)						
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	240.5%	236.1%	230.2%	225.7%	213.9%

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 31 December 2021 is based on the Banking (Capital) Rules ("BCR"). The capital adequacy ratio represents the consolidated ratio of the Bank's Hong Kong offices and its overseas branches, Shacom Property (CA), Inc., Shacom Property (NY), Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited, Right Honour Investments Limited, Glory Step Westpoint Investments Limited, Silver Wisdom Westpoint Investments Limited, Shacom Insurance Brokers Limited, KCC 23F Limited, KCC 25F Limited, and KCC 26F Limited computed in accordance with Section 3C(1) of the BCR.

For accounting purposes, the basis of consolidation is described in Note 2.2 to the consolidated financial statements.

The table below shows the balance sheet based on accounting scope of consolidation and the regulatory scope of consolidation, and the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Composition of Regulatory Capital as at 31 December 2021.

Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to Composition of Regulatory Capital
Assets			
Cash and balances with banks	30,685,587	30,684,194	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(1,819)	(1)
Placements with banks	15,478,679	15,478,679	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(943)	(2)
Loans and advances to customers	95,906,226	95,906,226	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(462,327)	(3)
Financial assets at fair value through profit or loss	2,103,933	2,063,083	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold	–	11,008	(4)
Derivative financial instruments	317,330	317,330	
Investment securities at fair value through other comprehensive income	81,438,993	81,438,993	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold	–	574,313	(5)
Investment securities at amortised cost	1,573,635	1,573,635	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(56)	(6)
Properties for sale	683,924	683,924	
Investments in associates and joint venture	466,829	188,000	
Investments in and amounts due from subsidiaries	–	326,322	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(11,488)	(7)
Properties and equipment	2,550,277	2,548,567	
Investment properties	1,002,672	1,031,818	
Deferred income tax assets	55,610	57,521	(8)
Other assets	1,669,618	1,609,897	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	(1,065)	(9)
Total assets	233,933,313	233,908,189	

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Reconciliation of regulatory capital to balance sheet (Continued)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to Composition of Regulatory Capital
Liabilities			
Deposits and balances from banks	9,032,550	9,032,550	
Deposits from customers	183,587,245	183,587,245	
Derivative financial instruments	251,085	251,085	
Amounts due to subsidiaries	–	629,333	
Subordinated debts	4,269,682	4,269,682	(10)
Other liabilities	2,426,108	2,283,572	
of which: Stage 1 and Stage 2 impairment allowances reflected in regulatory capital	–	14,718	(11)
Current income tax liabilities	140,035	139,925	
Deferred income tax liabilities	5,241	5,199	
Total liabilities	199,711,946	200,198,591	
Equity			
Share capital	2,000,000	2,000,000	(12)
Retained earnings	21,608,831	21,206,313	(13)
Reserves	10,515,909	10,503,285	
of which: accumulated other comprehensive income/(loss), other than regulatory reserve	–	9,560,974	(14)
regulatory reserve	–	942,311	(15)
Non-controlling interests in equity	96,627	–	
Total equity	34,221,367	33,709,598	
Total equity and liabilities	233,933,313	233,908,189	

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital

The Bank has already applied full capital deductions under the BCR. The Composition of Regulatory Capital as at 31 December 2021 is shown below:

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000	(12)
2	Retained earnings	21,206,313	(13)
3	Disclosed reserves	10,503,285	(14) + (15)
4	Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	–	
6	**CET1 capital before regulatory deductions**	**33,709,598**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liabilities)	–	
9	Other intangible assets (net of associated deferred tax liabilities)	–	
10	Deferred tax assets (net of associated deferred tax liabilities)	57,521	(8)
11	Cash flow hedge reserve	–	
12	Excess of total EL amount over total eligible provisions under the IRB approach	–	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	585,321	(4) + (5)
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	942,311	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	–	
26b	Regulatory reserve for general banking risks	942,311	(15)
26c	Securitization exposures specified in a notice given by the Monetary Authority	–	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e	Capital shortfall of regulated non-bank subsidiaries	–	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	**Total regulatory deductions to CET1 capital**	**1,585,153**	
29	**CET1 capital**	**32,124,445**	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	–	
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	–	
33	Capital instruments subject to phase-out arrangements from AT1 capital	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
35	of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements	–	
36	**AT1 capital before regulatory deductions**	**–**	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	–	
38	Reciprocal cross-holdings in AT1 capital instruments	–	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
41	National specific regulatory adjustments applied to AT1 capital	–	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–	
43	**Total regulatory deductions to AT1 capital**	**–**	
44	**AT1 capital**	**–**	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**32,124,445**	

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	4,269,682	(10)
47	Capital instruments subject to phase-out arrangements from Tier 2 capital	–	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	
49	of which: capital instruments issued by subsidiaries subject to phase-out arrangements	–	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,434,727	(11) + (15) – (1) – (2) – (3) – (6) – (7) – (9)
51	**Tier 2 capital before regulatory deductions**	**5,704,409**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	–	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	–	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	–	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
56	National specific regulatory adjustments applied to Tier 2 capital	–	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	–	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	–	
57	**Total regulatory adjustments to Tier 2 capital**	**–**	
58	**Tier 2 capital**	**5,704,409**	
59	**Total regulatory capital (TC = Tier 1 + Tier 2)**	**37,828,854**	
60	**Total risk weighted assets**	**176,262,604**	

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	Capital ratios (as a percentage of risk weighted assets)		
61	**CET1 capital ratio**	**18.2%**	
62	**Tier 1 capital ratio**	**18.2%**	
63	**Total capital ratio**	**21.5%**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**3.1%**	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: bank specific countercyclical capital buffer requirement	0.6%	
67	of which: higher loss absorbency requirement	0.0%	
68	**CET1 (as a percentage of RWA) available after meeting minimum capital requirements**	**12.2%**	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	3,270,977	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	806,729	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	1,434,727	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	1,946,194	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	–	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	–	

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Composition of regulatory capital (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2018 and 1 January 2022)		
80	Current cap on CET1 capital instruments subject to phase-out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase-out arrangements	–	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–	
84	Current cap on Tier 2 capital instruments subject to phase-out arrangements	–	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–	

Note to the template:

Element where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
10	**Deferred tax assets ("DTA") (net of associated deferred tax liabilities)**	**57,521**	**–**
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
	Remarks: The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.		

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments

The main features of regulatory capital instruments as at 31 December 2021 are shown below. Full terms and conditions are published in the Bank's website of http://www.shacombank.com.hk and are accessible at the following direct link: http://www.shacombank.com.hk/eng/about/regulatory/20211231.jsp

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
1	Issuer	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited	Shanghai Commercial Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	ISIN: XS1720518478	ISIN: XS1892105823
3	Governing law(s) of the instrument	Laws of Hong Kong	English law, except that the subordination provisions shall be governed by the laws of Hong Kong.	English Law, except that the subordination provisions shall be governed by the laws of Hong Kong.
	Regulatory treatment			
4	Transitional Basel III rules#	N/A	N/A	N/A
5	Post-transitional Basel III rules+	Common Equity Tier 1	Tier 2	Tier 2
6	Eligible at solo*/group/solo and group	Solo and Group	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Other Tier 2 instruments	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$2,000 million	HK$1,940 million	HK$2,330 million
9	Par value of instrument	N/A	US$250 million	US$300 million
10	Accounting classification	Shareholders' equity	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	1951, 1968, 1969, 1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000	29 November 2017	17 January 2019
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	29 November 2027	17 January 2029
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	One-off call date: 29 November 2022. Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the HKMA.	One-off call date: 17 January 2024. Additional optional redemption in whole at 100% of principal amount with accrued interest for taxation reasons, tax deductions reasons and regulatory reasons. Redemption amount subject to adjustment following occurrence of a Non-Viability Event. Redemption subject to prior written consent of the HKMA.
16	Subsequent call dates, if applicable	N/A	N/A	N/A

(All amounts in HK dollar thousands unless otherwise stated)

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
	Coupons/dividends			
17	Fixed or floating dividend/ coupon	Floating	Fixed	Fixed
18	Coupon rate and any related index	N/A	3.75% p.a. Fixed until 29 November 2022 and thereafter reset to a new fixed rate equal to the sum of the then prevailing U.S. Treasury Rate and the Spread at Pricing.	5.00% p.a. Fixed until 17 January 2024 and thereafter reset to a new fixed rate equal to the sum of the then prevailing U.S. Treasury Rate and the Spread at Pricing.
19	Existence of a dividend stopper	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	No	Yes	Yes
31	If write-down, write-down trigger(s)	N/A	The earlier of the HKMA notifying the issuer in writing: (i) that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable or (ii) that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.	The earlier of the HKMA notifying the issuer in writing: (i) that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable or (ii) that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

2 Capital structure and adequacy (Continued)

Main features of regulatory capital instruments (Continued)

		Ordinary shares	Subordinated notes due 2027	Subordinated notes due 2029
32	If write-down, full or partial	N/A	May be in part or in full	May be in part or in full
33	If write-down, permanent or temporary	N/A	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N/A	The rights of the holders will, in the event of the winding up of the Bank, rank (i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), and (b) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Notes or rank senior to the Notes by operation of law or contract; (ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and (iii) senior in right of payment to, and of all claims of, (a) the holders of Junior Obligations, and (b) holders of Tier 1 Capital Instruments of the Issuer.	The rights of the holders will, in the event of the winding up of the Bank, rank (i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Issuer (including its depositors), and (b) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Notes or rank senior to the Notes by operation of law or contract; (ii) pari passu in right of payment to and of all claims of the holders of Parity Obligations; and (iii) senior in right of payment to, and of all claims of, (a) the holders of Junior Obligations, and (b) holders of Tier 1 Capital Instruments of the Issuer.
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

Footnote:

- [#] Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the BCR
- [+] Regulatory treatment of capital instruments not subject to transitional arrangement provided for in Schedule 4H of the BCR
- * Include solo-consolidated

3 Overview of risk management and RWA

(a) Overview of risk management

The Group's risk management framework is designed to cover all business processes and ensure various risks are properly managed and controlled in the course of conducting business. The key financial risks related to the Group's business include credit risk, counterparty credit risk, market risk, liquidity risk, interest rate risk and operational risk. Further information on the management of these risks is set out within the Regulatory Disclosures and Notes to the Consolidated Financial Statements as follows:

– Credit risk	– Note 7 of Regulatory Disclosures and Note 3.1 of Notes to the Consolidated Financial Statements
– Counterparty credit risk	– Note 8 of Regulatory Disclosures
– Market risk	– Note 9 of Regulatory Disclosures and Note 3.2 of Notes to the Consolidated Financial Statements
– Liquidity risk	– Note 10 of Regulatory Disclosures and Note 3.3 of Notes to the Consolidated Financial Statements
– Interest rate risk in the banking book	– Note 11 of Regulatory Disclosures and Note 3.2.4 of Notes to the Consolidated Financial Statements
– Operational risk	– Note 3.6 of Notes to the Consolidated Financial Statements

Risk culture

The Group has long recognised the importance of a strong risk culture which is the core value of the Group and is endorsed by the Board of Directors ("the Board") and being followed by the senior management. The risk culture of the Group is created through setting and complying with the risk management strategies and core risk management principles as well as establishing a sound risk management systems and effective risk management process to address material risks under normal and stressed conditions in a forward-looking approach. Risk awareness is promoted to all staff to enhance the Group's overall risk management through appropriate training. The Group's risk culture is further reinforced by the Group's remuneration system that is established to ensure that incentives would not create excessive or undue risk exposure and unethical behaviour which could threaten the reputation as well as safety and soundness of the Group.

Risk governance

The Board has the ultimate responsibility for the effective management of risk and approves and oversees the Group's overall risk management framework. The Board delegates its power to oversee the Group's major functional areas, including treasury, retail banking, corporate banking, risk management, wealth management, credit control and financial control, and the risks associated with them to the Risk Committee, the Audit Committee, and the Executive Committee. The Risk Committee in particular has the authority and responsibility to oversee and guide the overall management of the bank-wide risks undertaken by the Group.

The Chief Executive, Chief Risk Officer and the senior management have the responsibility to ensure various risk limits are appropriately established according to the risk management strategies set by the Board, and to oversee the effectiveness of managing and controlling risk in the day-to-day management of the Group.

Various business and functional units of the Group have their respective risk management responsibilities. Business units act as the first line of defence in risk management while other functional units, in particular Risk Management Division and Credit Division, which are independent from the business units and act as the second line of defence, assist in managing different kinds of risks.

The Internal Audit Department as the third line of defence, is responsible for providing independent assurance through conducting internal audits, and reporting to the Audit Committee on the quality of risk controls and management, and the adequacy and effectiveness of internal control environment of the Group.

3 Overview of risk management and RWA (Continued)

(a) Overview of risk management (Continued)

Risk appetite

The Group's Risk Appetite Statement is reviewed and approved by the Board from time to time but at least annually with reference to evolving industry and market development, which describes the level of risk that the Group is prepared to accept in pursuit of the Group's strategic objectives. The Group adopts a low risk appetite in managing and controlling risks in a prudent manner with a view to achieving steady growth and reasonable returns.

Various ratios and risk limits are set with reference to the legal and regulatory requirements to limit and control the risk exposure of the Group under a risk tolerance level acceptable to the Group and commensurate with the risk adverse culture as well as prudent management practice.

Stress testing

Stress testing is a risk management tool and involves the use of various techniques to assess the Group's potential vulnerability to adverse changes in market conditions. It is conducted with hypothetical as well as historical assumptions. With the establishment of various alerting levels under different scenarios, it helps to alert the management to adverse unexpected outcomes related to a variety of risks and provides an indication to the amount of financial resources (including capital and liquidity) that might be necessary for absorbing losses caused by, or to withstand, severe stressed conditions.

Risk measurement and information reporting

The Group has developed various systems for risk measurement and reporting for different risk exposures. Further information on the measurement and reporting of credit risk, market risk, liquidity risk and interest rate risk in the banking book exposures are provided in Note 7(a), Note 9(a), Note 10 and Note 11 of Regulatory Disclosures respectively.

A detailed report on risk exposures and risk management activities of the Group, which covers the assessment on major risk exposures including credit risk, market risk, interest rate risk in the banking book, liquidity risk, legal risk, compliance and regulatory risk, operational risk, reputation risk, strategic risk and technology risk is presented to the Risk Committee for review on a quarterly basis. Besides, the results of stress tests, maintenance of regulatory risk limits and risk monitoring on overseas branches are also presented.

The Group continues to invest significant resources in IT systems and processes in order to maintain and improve the risk management capabilities. A number of key initiatives and projects to enhance consistent data aggregation, reporting and management, and work towards meeting new regulatory standards are in progress.

Risk mitigation

The Group applies different strategies and processes to hedge and mitigate different risks. Exposure to credit risk is usually mitigated by obtaining collateral and corporate and personal guarantees. The Group further mitigates credit risk by entering into netting arrangements with financial institutions to cover derivatives instruments while obtaining margin deposits from non-financial counterparties. For liquidity risk management, apart from establishing liquidity cushion, the Group uses results of stress-testing and reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stress and vulnerability which the Group might face.

(All amounts in HK dollar thousands unless otherwise stated)

3 Overview of risk management and RWA (Continued)

(b) Overview of RWA

The table below shows the breakdowns of RWA for various risks as at 31 December 2021 and 30 September 2021 and the minimum capital requirements as at 31 December 2021 which are calculated by multiplying the Group's RWA by 8%.

		RWA		Minimum capital requirements
		31 December 2021	30 September 2021	31 December 2021
1	Credit risk for non-securitization exposures	152,768,969	154,461,771	12,221,518
2	Of which STC approach	152,768,969	154,461,771	12,221,518
2a	Of which BSC approach	–	–	–
3	Of which foundation IRB approach	–	–	–
4	Of which supervisory slotting criteria approach	–	–	–
5	Of which advanced IRB approach	–	–	–
6	Counterparty default risk and default fund contributions	909,736	1,443,026	72,779
7	Of which SA-CCR approach	909,736	1,443,026	72,779
7a	Of which CEM	–	–	–
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	–	–	–
10	CVA risk	185,963	267,813	14,877
11	Equity positions in banking book under the simple risk-weight method and internal models method	–	–	–
12	Collective investment scheme ("CIS") exposures – LTA	N/A	N/A	N/A
13	CIS exposures – MBA	N/A	N/A	N/A
14	CIS exposures – FBA	N/A	N/A	N/A
14a	CIS exposures – combination of approaches	N/A	N/A	N/A
15	Settlement risk	–	–	–
16	Securitization exposures in banking book	–	–	–
17	Of which SEC-IRBA	–	–	–
18	Of which SEC-ERBA (including IAA)	–	–	–
19	Of which SEC-SA	–	–	–
19a	Of which SEC-FBA	–	–	–
20	Market risk	10,718,163	10,600,563	857,453
21	Of which STM approach	10,718,163	10,600,563	857,453
22	Of which IMM approach	–	–	–
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	N/A	N/A	N/A
24	Operational risk	9,662,950	9,689,050	773,036
24a	Sovereign concentration risk	–	–	–
25	Amounts below the thresholds for deduction (subject to 250% RW)	2,016,823	1,668,308	161,346
26	Capital floor adjustment	–	–	–
26a	Deduction to RWA	–	–	–
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	–	–	–
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	–	–	–
27	**Total**	176,262,604	178,130,531	14,101,009

(All amounts in HK dollar thousands unless otherwise stated)

4 Linkages between financial statements and regulatory exposures

(a) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitisation framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with banks	30,685,587	30,684,194	30,684,194	–	–	–	–
Placements with banks	15,478,679	15,478,679	15,478,679	–	–	–	–
Loans and advances to customers	95,906,226	95,906,226	95,906,226	–	–	–	–
Financial assets at fair value through profit or loss	2,103,933	2,063,083	8,672	–	–	2,043,403	11,008
Derivative financial instruments	317,330	317,330	–	317,330	–	317,330	–
Investment securities at fair value through other comprehensive income	81,438,993	81,438,993	80,864,680	–	–	–	574,313
Investment securities at amortised cost	1,573,635	1,573,635	1,573,635	–	–	–	–
Properties for sale	683,924	683,924	683,924	–	–	–	–
Investments in associates and joint venture	466,829	188,000	188,000	–	–	–	–
Investments in and amounts due from subsidiaries	–	326,322	326,322	–	–	–	–
Properties and equipment	2,550,277	2,548,567	2,548,567	–	–	–	–
Investment properties	1,002,672	1,031,818	1,031,818	–	–	–	–
Deferred income tax assets	55,610	57,521	–	–	–	–	57,521
Other assets	1,669,618	1,609,897	1,239,627	–	–	–	370,270
Total assets	**233,933,313**	**233,908,189**	**230,534,344**	**317,330**	**–**	**2,360,733**	**1,013,112**
Liabilities							
Deposits and balances from banks	9,032,550	9,032,550	–	–	–	–	9,032,550
Deposits from customers	183,587,245	183,587,245	–	–	–	–	183,587,245
Derivative financial instruments	251,085	251,085	–	–	–	–	251,085
Amounts due to subsidiaries	–	629,333	–	–	–	–	629,333
Subordinated debts	4,269,682	4,269,682	–	–	–	–	4,269,682
Other liabilities	2,426,108	2,283,572	–	–	–	–	2,283,572
Current income tax liabilities	140,035	139,925	–	–	–	–	139,925
Deferred income tax liabilities	5,241	5,199	–	–	–	–	5,199
Total liabilities	**199,711,946**	**200,198,591**	**–**	**–**	**–**	**–**	**200,198,591**

(All amounts in HK dollar thousands unless otherwise stated)

4 Linkages between financial statements and regulatory exposures (Continued)

(b) Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Items subject to:			
	Total	credit risk framework	securitisation framework	counterparty credit risk framework	market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per Regulatory Disclosures Note 4(a))	232,895,077	230,534,344	–	317,330	2,360,733
Liabilities carrying value amount under regulatory scope of consolidation (as per Regulatory Disclosures Note 4(a))	–	–	–	–	–
Total net amount under regulatory scope of consolidation	232,895,077	230,534,344	–	317,330	2,360,733
Off-balance sheet amounts	48,826,994	6,205,455	–	–	–
Differences due to consideration of provisions	477,698	477,698	–	–	–
Differences due to potential exposures for counterparty risk	1,129,559	–	–	1,129,559	–
Differences due to replacement cost for counterparty risk	(163,452)	–	–	(163,452)	–
Differences due to reversal of credit balance of other assets	1,819	1,819	–	–	–
Exposure amounts considered for regulatory purposes	283,167,695	237,219,316	–	1,283,437	2,360,733

(c) Explanations of differences between accounting and regulatory exposure amount

Basis of consolidation

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified by the Hong Kong Monetary Authority. Subsidiaries not included in consolidation for regulatory purposes are mainly securities and insurance companies that are authorised and supervised by the Securities and Futures Commission and Insurance Authority respectively.

Most of the principal subsidiaries of the Group are included under scope of regulatory consolidation that there are no material differences between the carrying values of assets as reported in published financial statements and under scope of regulatory consolidation.

Exposure amounts considered for regulatory purposes require adjustments to be made to the carrying value of assets as reported in published financial statements. The main adjustments taken by the Group include the consideration of provisions, off-balance sheet exposures and potential exposure of default risk.

The Group uses the standardised approach to calculate the risk-weighted assets for its credit risk and market risk exposures. For operational risk, the Group uses the basic indicator approach to calculate its operational risk capital charge. During the reporting period, the Group did not have any securitisation exposure. Stage 1 and Stage 2 credit impairment allowances that are deducted from the carrying amount of exposures in the financial statements need to be reintegrated in the regulatory exposure value under the standardised approach. Off-balance sheet contracts, such as guarantees and commitments, also carry credit risks. These exposures are converted to credit equivalent amounts and added to the regulatory exposure amounts. The default risk exposures of OTC derivative contracts as reported in the published financial statements include their fair value only. Potential exposures for counterparty credit risk of OTC derivative contracts are therefore needed to be added to the regulatory exposure amount.

The Group operates subsidiaries in different countries where capital is governed by local rules and there may be restrictions on the transfer of funds or regulatory capital between members of the Group.

4 Linkages between financial statements and regulatory exposures (Continued)

(c) Explanations of differences between accounting and regulatory exposure amount (Continued)

Valuation control framework

The Group has in place fair valuation policy to ensure adequate governance and control processes for the designation and valuation of financial instruments to be measured at fair value for financial reporting, risk management and regulatory capital purposes.

The Risk Committee is delegated by the Board to approve the fair valuation policy and to review the governance structure and control framework to ensure that fair values are either determined or validated by control units independent of risk taking units. Control units have the overall responsibility for determination of valuation or independent verification of valuation results and ensuring the valuation process for financial instruments is conducted effectively and appropriately. Revaluation reports of trading and non-trading positions are compiled regularly and submitted to senior management for review. Any significant valuation issues are reported to senior management, Asset and Liability Committee and Risk Committee.

Valuation methodologies and process

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless whether the price is directly observable or estimated using another valuation technique.

For financial instrument with bid-offer close-out price, its fair value can be the price within the bid-offer price that is the most representative of fair value. All bid-offer market prices of the financial products, including foreign exchange, equities, debt securities and interest rate swap will be obtained from designated financial data service providers.

For financial instrument without bid-offer close-out price, the Group uses valuation techniques to establish the fair value of instruments including the use of recent arm's length market transactions between knowledgeable and willing parties, reference to the current fair value of another financial instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Valuation adjustments

Valuation adjustments are an integral part of the valuation process. Appropriate valuation adjustments are made when the Group considers that there are additional factors that are not incorporated within the valuation methodologies or models such as illiquidity adjustment and valuation uncertainty adjustment.

Illiquidity adjustment may be taken if the securities are deemed illiquid, such as where the Group holds a security that has a significant concentration ratio (ratio of amount of security held by the Group to the total issuance size), concentration adjustment may be required. To adopt illiquidity adjustment, securities with the same issuer and having nearby maturities as the security in subject would be selected and the yields of these securities would be extracted and interpolated as the yield of security in subject and the price of the illiquid security would then be calculated and compared with the price calculated by the usual valuation methodologies and processes.

The prices of certain debt securities may be less readily determinable from market data. If there is no quotation from designated financial data service providers, other sources will be sought such as the prices of most recent executed transactions. Standard deviation of the prices of the debt securities quoted by different rate sources will be calculated as the uncertainty of the prices quoted of the securities. The fair value of the debt securities will be adjusted by the standard deviation of the prices of the corresponding securities.

As at 31 December 2021, no valuation adjustment was required as most of the Group's investments were listed equities or debt securities of straight bonds that did not contain any complex features.

5 Countercyclical capital buffer ("CCyB") ratio

CCyB ratio is calculated as the weighted average of the applicable jurisdictional CCyB ("JCCyB") ratio effective at the date for which the determination is made, in respect of the jurisdictions (including Hong Kong) where the Bank has private sector credit exposures. The weight to be attributed to a given jurisdiction's applicable CCyB ratio is the ratio of the Bank's aggregate RWA for its private sector credit exposures (in both the banking book and the trading book) in that jurisdiction where the location of the exposures is determined as far as possible on an ultimate risk basis to the sum of the Bank's aggregate RWA across all jurisdictions in which the Bank has private sector credit exposures.

Key drivers for the changes in exposure amounts include asset quality, credit growth and credit portfolio. The applicable JCCyB ratio for Hong Kong is determined by the Hong Kong Monetary Authority based on the Initial Reference Calculator that is transparently calculated and made public, while the applicable JCCyB ratio in respect of a given jurisdiction outside Hong Kong may differ from the JCCyB ratio as determined by the relevant authority in that jurisdiction if the Hong Kong Monetary Authority has determined and announced the application of a higher or lower rate.

The following table shows the CCyB ratio, the geographical breakdown of the RWA in relation to private sector credit exposures that are relevant to the calculation of CCyB ratio and which have an applicable JCCyB ratio greater than zero as at 31 December 2021.

	Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
		%	HK$'000	%	HK$'000
1	Hong Kong SAR	1.0%	77,072,200		
	Sum		**77,072,200**		
	Total		**122,545,575**	**0.6%**	**1,108,692**

(All amounts in HK dollar thousands unless otherwise stated)

6 Leverage ratio

The leverage ratio ("LR") represents the consolidated ratio computed in the same regulatory consolidation basis as the capital adequacy ratio. The table below presents the summary comparison of accounting assets against leverage ratio exposure measure as at 31 December 2021.

Item		Value under the LR framework
1	Total consolidated assets as per published financial statements (before adjustments for specific and collective provisions)	234,479,186
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(25,124)
2a	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
3a	Adjustments for eligible cash pooling transactions	–
4	Adjustments for derivative contracts	910,629
5	Adjustment for SFTs (i.e. repos and similar secured lending)	–
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	9,913,175
6a	Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure	(545,873)
7	Other adjustments	(1,585,153)
8	**Leverage ratio exposure measure**	243,146,840

The leverage ratios as at 31 December 2021 and 30 September 2021 are shown below:

		31 December 2021	30 September 2021
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	234,136,732	237,866,963
2	Less: Asset amounts deducted in determining Tier 1 capital	(1,585,153)	(1,591,973)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	232,551,579	236,274,990
	Exposures arising from derivative contracts		
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	80,187	132,179
5	Add-on amounts for PFE associated with all derivative contracts	1,147,772	1,674,499
6	Gross-up for collateral provided in respect of derivative contracts where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	–	–
8	Less: Exempted CCP leg of client-cleared trade exposures	–	–
9	Adjusted effective notional amount of written credit-related derivative contracts	–	–
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	–	–
11	**Total exposures arising from derivative contracts**	1,227,959	1,806,678

(All amounts in HK dollar thousands unless otherwise stated)

6 Leverage ratio (Continued)

		31 December 2021	30 September 2021
	Exposures arising from SFTs		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	–	–
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
14	CCR exposure for SFT assets	–	–
15	Agent transaction exposures	–	–
16	**Total exposures arising from SFTs**	–	–
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	48,826,994	47,454,341
18	Less: Adjustments for conversion to credit equivalent amounts	(38,913,819)	(37,327,527)
19	**Off-balance sheet items**	9,913,175	10,126,814
	Capital and total exposures		
20	**Tier 1 capital**	32,124,445	31,768,982
20a	**Total exposures before adjustments for specific and collective provisions**	243,692,713	248,208,482
20b	**Adjustments for specific and collective provisions**	(545,873)	(556,722)
21	**Total exposures after adjustments for specific and collective provisions**	243,146,840	247,651,760
	Leverage ratio		
22	**Leverage ratio**	13.2%	12.8%

Footnote:
CCP Central counterparty
CCR Counterparty credit risk
PFE Potential future exposure
SFT Securities financing transactions

7 Credit risk

(a) General information about credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. The Group's exposure to credit risk arises from a range of customer and product types, including exposures to corporate, retail and high net worth customers. The major corporate banking products offered by the Group include commercial loans and trade finance. The retail loans cover mortgage loans, consumer loans and credit cards.

The approach used for defining credit risk management policy and setting credit risk limits is described in Note 3.1 of Notes to the Consolidated Financial Statements.

Various analytical reports on credit risk exposures and credit risk management are provided monthly to senior management; including reports on loans and advances to customers, the credit risk profile of the Group, the portfolio distribution and credit quality, credit portfolio risk monitoring and compliance, impairment allowance and large exposures and risk concentrations.

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(a) General information about credit risk (Continued)

Credit risk management framework

The Group's organization structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Credit Committee is responsible for establishing credit policies, monitoring loan portfolio quality and impairment charge, ensuring compliance with statutory and internal lending limits, evaluating credit applications, making credit decisions and etc. Further information on the Credit Committee is set out in the Corporate Governance Report included in the 2021 Annual Report.

The Chief Risk Officer takes charge of the Group's overall credit risk management. He is responsible for ensuring that the Group's risk management framework, all related policies and control procedures, and business processes are effective, adequate and properly implemented and consistent with the overall risk appetite of the Group and credit related regulatory requirements. He is also responsible for assessing, evaluating and monitoring the use of risk limits and ensuring that quantifiable risks are within the approved limits.

Various units of the Group have their respective credit risk management responsibilities. Business units including branches and business departments, being the first line of defence, are responsible for performing on-going 'know your customer' checks. The Credit Appraisal Department, Credit Control Department, Credit Review & Policy Department, Market Risk & Risk Analytics Department and the Compliance Department, which are independent from the business units, act as the second line of defence. The Credit Appraisal Department is responsible for independent evaluation of credit applications, Credit Review & Policy Department is responsible for performing periodic credit review and formulating and reviewing credit risk policies and guidelines while Credit Control Department is responsible for performing credit control and monitoring. The Market Risk & Risk Analytics Department is responsible for monitoring the day-to-day management of the credit risk related to treasury operation. The Compliance Department is responsible for monitoring and ensuring that all the relevant regulatory and statutory requirements and limits are complied with by the Group. The Internal Audit Department is responsible for conducting regular review on the adequacy and effectiveness of the credit risk control and governance processes of the Group, and compliance with regulatory and statutory requirements.

(b) Credit quality of exposures as at 31 December 2021

		Gross carrying amounts of			Of which ECL accounting provisions for credit losses on STC approach exposures			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions	Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values
1	Loans	107,092	96,314,918	515,784	53,457	462,327	–	95,906,226
2	Debt securities	–	79,077,410	56	–	56	–	79,077,354
3	Off-balance sheet exposures	–	11,749,797	5,591	–	5,591	–	11,744,206
4	**Total**	**107,092**	**187,142,125**	**521,431**	**53,457**	**467,974**	**–**	**186,727,786**

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(c) Changes in defaulted loans and debt securities

		Amount
1	Defaulted loans and debt securities as at end June 2021	111,213
2	Loans and debt securities that have defaulted since the last reporting period	3,278
3	Returned to non-defaulted status	(207)
4	Amounts written off	(560)
5	Other changes	(6,632)
6	**Defaulted loans and debt securities as at end December 2021**	**107,092**

(d) Additional disclosures related to credit quality of exposures

The accounting definition of impaired exposures and the regulatory definition of defaulted exposures are generally aligned. In general, loans and advances overdue for more than 90 days are considered impaired unless other information is available to indicate the contrary. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Loans and advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

The approach for determining impairment of financial assets is provided in Notes 2.6 and 3.1.1 of Notes to the Consolidated Financial Statements.

As at 31 December 2021, loans and advances which were past due for more than 90 days were all impaired.

Rescheduled loans and advances to customers are those loans and advances that have been rescheduled or renegotiated for reasons related to the borrower's financial difficulties. A rescheduled loan will normally require an adverse classification under the loan classification system (i.e. substandard or doubtful).

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(d) Additional disclosures related to credit quality of exposures (Continued)

(i) Breakdown of credit risk exposures as at 31 December 2021 by industry sector, geographical region and residual maturity

	Total	Impaired exposure	Stage 3 impairment allowances	Amounts written-off
Credit risk exposure – By industry sector				
– Property development	28,114,615	88,555	–	–
– Property investment	27,381,872	271,141	–	–
– Banks and financial institutions	49,317,176	–	–	–
– International, wholesale and retail trade	16,302,053	113,336	45,201	99
– Personal	15,059,715	38,043	3,714	1,253
– Others*	50,552,355	9,426	4,542	–
Total	**186,727,786**	**520,501**	**53,457**	**1,352**
Credit risk exposure – By geographical region				
– Hong Kong	99,101,627	84,439	16,642	1,352
– Mainland China	25,949,926	73,629	36,815	–
– United States	31,390,364	362,433	–	–
– Others	30,285,869	–	–	–
Total	**186,727,786**	**520,501**	**53,457**	**1,352**
Credit risk exposure – By residual maturity				
– Repayable on demand	5,247,998			
– Up to 1 month	14,532,099			
– 1-3 months	21,112,143			
– 3-12 months	48,087,752			
– 1-5 years	73,927,759			
– Over 5 years	20,349,163			
– Indefinite	3,470,872			
Total	**186,727,786**			

* Others include exposures to manufacturing, hotels, catering, telecommunication, transport and other commercial and industrial activities where exposure to each of these sectors is less than 10% of the Group's total RWA for credit risk.

(ii) Aging analysis of accounting past due exposures as at 31 December 2021

	Gross carrying amount
Past due over 3 months but less than 6 months	14,997
Past due over 6 month but less than 1 year	25,023
Past due over 1 year	67,072
Total	**107,092**

(iii) Breakdown of restructured exposures between impaired and non-impaired exposures as at 31 December 2021

	Gross carrying amount of	
	Impaired	Not impaired
Rescheduled loans and advances	27,868	–

7 Credit risk (Continued)

(e) Qualitative disclosures related to credit risk mitigation

Collateral

The Group employs a range of policies and practices to mitigate credit risk which is described in Note 3.1.4(a) of Notes to the Consolidated Financial Statements.

Revaluation and management of collateral

To ascertain the estimated fair value of the collateral offered to the Group, collateral other than the bank deposits is revalued according to the Guideline on Management of Collateral and Guarantees for monitoring the collateral position against relevant credit exposure.

The revaluation frequency depends on the collateral type but at least annually such as real estate, debt securities and equities. More frequent revaluation is needed for certain products, such as listed stocks which are revalued at least twice daily. The collateral value may be adjusted to reflect the likely net realizable value of such collateral.

Advice and service will be sought and employed from external legal professional whenever required to ensure all documentation creating the collateral and providing for the obligation of the parties with respect to each other in respect of the collateral is binding on all parties and legally enforceable in all relevant jurisdictions.

Recognition of risk mitigation under the standardised approach

The Group applies the simple approach for credit risk mitigation to all its on- and off-balance sheet banking book exposures that are subject to risk mitigation. Where a claim on a counterparty is secured against eligible collateral, the secured portion of the claim must be weighted according to the risk-weight applicable to the collateral (unless that produces a higher risk-weight than would be applicable to the original counterparty, in which case the risk-weight applicable to that counterparty should apply). The unsecured portion of the claim must be weighted according to the risk-weight applicable to the original counterparty. The main types of recognised credit risk mitigant used by the Group include deposits and bank guarantee. In addition, real estate collateral is also recognised for past due exposures.

Where a claim on a counterparty is secured by a guarantee from an eligible guarantor, the portion of the claim that is supported by the guarantee is to be weighted according to the risk-weight applicable to the guarantor (unless the risk-weight applicable to the original counterparty is lower). The unsecured portion of the claim must be weighted according to the risk-weight applicable to the original counterparty.

For capital calculation, the Group has not used any on-balance sheet or off-balance sheet recognised netting for credit risk mitigation.

Concentrations within credit risk mitigations

Concentrations within credit risk mitigations taken may occur if a number of guarantors and collaterals with similar economic characteristics are engaged in comparable activities with changes in economic or industry conditions affecting their ability to meet contractual obligations. A range of quantitative tools is used to monitor the Group's credit risk mitigating activities including dedicated stress tests.

Stress-tests and scenario analysis are conducted on the Group's portfolio of collateral to assess the impact under unusual market conditions and relevant reports are submitted to the senior management for review in accordance with the Stress-Testing Policy of the Group.

The credit concentrations within the credit risk mitigation (recognised collateral and guarantees for capital calculation) used by the Group are within acceptable levels.

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(f) Overview of recognised credit risk mitigation as at 31 December 2021

		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
1	Loans	94,174,572	1,731,654	1,339,317	392,337	–
2	Debt securities	79,077,354	–	–	–	–
3	**Total**	**173,251,926**	**1,731,654**	**1,339,317**	**392,337**	**–**
4	Of which defaulted	2,757	79,574	79,574	–	–

(g) Qualitative disclosures on use of ECAI ratings under STC approach

Under the standardised approach ("STC") for the calculation of credit risk within the Basel capital framework, banks are required to use credit assessments provided by external credit assessment institutions ("ECAIs"), recognised by the Hong Kong Monetary Authority for the purposes of regulatory capital calculation, to determine the risk-weights of the banks' credit exposures.

Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and Rating and Investment Information, Inc. are the ECAIs that the Group has used for the determination of risk weightings for the following classes of exposure:

– Sovereign exposures;
– Public sector entity exposures;
– Bank exposures;
– Securities firm exposures;
– Corporate exposures; and
– Collective investment scheme exposures

The mapping of ECAI ratings of the above six classes of exposure to the risk weights under STC follows the process as prescribed in Part 4 of the Banking (Capital) Rules. Where an exposure of debt securities has an issue-specific external credit assessment, such assessment will be used. In case there is no specific issue rating published by the ECAI, the issuer rating is applied to the senior unsecured claims of that issuer subject to the conditions prescribed by the BCR.

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(h) Credit risk exposures and effects of recognised credit risk mitigation – for STC approach as at 31 December 2021

		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	11,693,138	–	11,695,202	–	153,323	1%
2	PSE exposures	3,976,645	250,000	3,974,581	125,000	771,028	19%
2a	Of which: domestic PSEs	3,732,202	250,000	3,730,138	125,000	771,028	20%
2b	Of which: foreign PSEs	244,443	–	244,443	–	–	–
3	Multilateral development bank exposures	1,376,007	–	1,376,007	–	–	–
4	Bank exposures	77,002,814	1,208,351	77,212,395	440,262	29,120,774	38%
5	Securities firm exposures	384,990	3,214,170	384,990	–	192,495	50%
6	Corporate exposures	108,513,017	32,848,814	107,502,948	4,443,591	101,063,016	90%
7	CIS exposures	–	–	–	–	–	–
8	Cash items	885,572	–	2,145,315	–	183,487	9%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	–	–	–	–	–	–
10	Regulatory retail exposures	3,676,261	2,329,410	3,572,572	131,773	2,778,259	75%
11	Residential mortgage loans	8,430,752	2,044,586	8,428,351	1,018,938	4,544,546	48%
12	Other exposures which are not past due exposures	14,185,605	6,931,663	13,832,440	45,891	13,878,331	100%
13	Past due exposures	82,331	–	82,331	–	83,710	102%
14	Significant exposures to commercial entities	–	–	–	–	–	–
15	**Total**	**230,207,132**	**48,826,994**	**230,207,132**	**6,205,455**	**152,768,969**	**65%**

(All amounts in HK dollar thousands unless otherwise stated)

7 Credit risk (Continued)

(i) Credit risk exposures by asset classes and by risk weights – for STC approach as at 31 December 2021

	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	10,928,585	–	766,617	–	–	–	–	–	–	–	**11,695,202**
2	PSE exposures	244,443	–	3,855,138	–	–	–	–	–	–	–	**4,099,581**
2a	Of which: domestic PSEs	–	–	3,855,138	–	–	–	–	–	–	–	**3,855,138**
2b	Of which: foreign PSEs	244,443	–	–	–	–	–	–	–	–	–	**244,443**
3	Multilateral development bank exposures	1,376,007	–	–	–	–	–	–	–	–	–	**1,376,007**
4	Bank exposures	–	–	33,109,358	–	44,088,791	–	454,508	–	–	–	**77,652,657**
5	Securities firm exposures	–	–	–	–	384,990	–	–	–	–	–	**384,990**
6	Corporate exposures	–	–	1,507,722	–	19,354,689	–	91,084,128	–	–	–	**111,946,539**
7	CIS exposures	–	–	–	–	–	–	–	–	–	–	**–**
8	Cash items	1,498,732	–	578,870	–	–	–	67,713	–	–	–	**2,145,315**
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	–	–	–	–	–	–	–	–	–	–	**–**
10	Regulatory retail exposures	–	–	–	–	–	3,704,345	–	–	–	–	**3,704,345**
11	Residential mortgage loans	–	–	–	7,485,843	–	147,779	1,813,667	–	–	–	**9,447,289**
12	Other exposures which are not past due exposures	–	–	–	–	–	–	13,878,331	–	–	–	**13,878,331**
13	Past due exposures	–	–	–	–	–	–	79,574	2,757	–	–	**82,331**
14	Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	**–**
15	**Total**	**14,047,767**	**–**	**39,817,705**	**7,485,843**	**63,828,470**	**3,852,124**	**107,377,921**	**2,757**	**–**	**–**	**236,412,587**

(All amounts in HK dollar thousands unless otherwise stated)

8 Counterparty credit risk

(a) Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

Counterparty credit risk arises from over-the-counter ("OTC") derivative contracts and securities financing transactions both in trading and banking books, and is subject to the same risk management framework. Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. Starting from 30 June 2021, the Group adopts the standardised (counterparty credit risk) approach ("SA-CCR") to measure the credit equivalent amount, which comprises replacement cost and potential future exposure, multiplied by a scaling factor of 1.4. The relevant counterparty default risk capital charge is calculated under the standardised approach. The Group also adopts the standardised credit valuation adjustment ("CVA") method to calculate the relevant counterparty CVA capital charge.

The Group exercises strict control over counterparty credit risk exposure, including central counterparty ("CCP"). All credit limits are established in advance of transaction. Credit and settlement risk is captured, monitored and reported in accordance with the Group risk methodologies. The credit risk exposures associated with these contracts are predominantly their positive marked-to-market values. These credit risk exposures together with potential exposures from market movements are managed as part of the overall lending limits allowed to counterparties. In instance of financial institutions, close – out netting agreement (International Swaps and Derivatives Association "ISDA") and/or collateral netting agreement (Credit Support Annex "CSA") are used, while the Group generally requires margin deposits from corporate, commercial and retail customers for risk mitigation purpose. In the case of a 2-notch downgrade of the Group's credit rating, the impact on the Group's derivative collateral requirements is minimal.

Wrong-way risk occurs when the probability of default of a counterparty is positively correlated with general market risk factors (general wrong-way risk), and when exposure to a counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty (specific wrong-way risk). The Group monitors and mitigates wrong-way risk by restricting the receipt of eligible collateral to low-risk and high-liquidity cash and bonds issued by sovereigns, central banks and multilateral development banks.

(b) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches as at 31 December 2021

		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR approach (for derivative contracts)	109,913	806,828		1.4	1,283,437	909,736
1a	CEM (for derivative contracts)	–	–		1.4	–	–
2	IMM (CCR) approach			–	–	–	–
3	Simple approach (for SFTs)					–	–
4	Comprehensive approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	**Total**						**909,736**

(All amounts in HK dollar thousands unless otherwise stated)

8 Counterparty credit risk (Continued)

(c) CVA capital charge as at 31 December 2021

		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method		
1	(i) VaR (after application of multiplication factor if applicable)		–
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		–
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	1,283,437	185,963
4	**Total**	**1,283,437**	**185,963**

(d) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach as at 31 December 2021

	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	–	–	–	–	–	–	–	–	–	–	**–**
2	PSE exposures	–	–	–	–	–	–	–	–	–	–	**–**
2a	Of which: domestic PSEs	–	–	–	–	–	–	–	–	–	–	**–**
2b	Of which: foreign PSEs	–	–	–	–	–	–	–	–	–	–	**–**
3	Multilateral development bank exposures	–	–	–	–	–	–	–	–	–	–	**–**
4	Bank exposures	–	–	92,168	–	520,617	–	–	–	–	–	**612,785**
5	Securities firm exposures	–	–	–	–	3,420	–	–	–	–	–	**3,420**
6	Corporate exposures	–	–	–	–	75,899	–	239,425	–	–	–	**315,324**
7	CIS exposures	–	–	–	–	–	–	–	–	–	–	**–**
8	Regulatory retail exposures	–	–	–	–	–	–	–	–	–	–	**–**
9	Residential mortgage loans	–	–	–	–	–	–	–	–	–	–	**–**
10	Other exposures which are not past due exposures	–	–	–	–	–	–	351,908	–	–	–	**351,908**
11	Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	**–**
12	**Total**	**–**	**–**	**92,168**	**–**	**599,936**	**–**	**591,333**	**–**	**–**	**–**	**1,283,437**

(All amounts in HK dollar thousands unless otherwise stated)

8 Counterparty credit risk (Continued)

(e) Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs) as at 31 December 2021

		Derivative contracts				SFTs	
		Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral received	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash –other currencies	–	89,913	–	55,133	–	–
2	**Total**	**–**	**89,913**	**–**	**55,133**	**–**	**–**

(f) Credit-related derivatives contracts

The Group did not have any credit-related derivatives contracts as at 31 December 2021.

(g) Exposures to CCPs

The Group did not have any exposures to CCPs as at 31 December 2021.

9 Market risk

(a) Qualitative disclosures related to market risk

Market risk is the risk that interest rates, foreign exchange rates, equity or commodity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Group enters into various types of financial instruments, mainly foreign exchange and equity contracts, that comprise transactions initiated for the Group's own account and customer needs.

The Group's positions are managed by the Treasury Division under the limits and guidelines laid down in the foreign exchange risk management policy and the policy on allocating transactions of financial instruments to the trading, non-trading or investment book, which are approved by the Executive Committee. The Risk Management Division is responsible for monitoring the transactions to ensure the activities are within the relevant limits and guidelines.

Further information on the management of foreign exchange risk and interest rate risk is provided in Note 3.2.3 and Note 3.2.4 of Notes to the Consolidated Financial Statements respectively.

Market risk measurement

The measuring procedures and limit structure used for market risk management have been approved by the Executive Committee. Limits on notional, stop loss and sensitivity are set for trading positions which are marked-to-market daily. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are reviewed by management, the Asset and Liability Committee, the Risk Committee and the Board.

The Group measures the exposure of its assets and liabilities to fluctuations in interest rates primarily by way of gap analysis which provides the Group with a static view of the maturity and re-pricing characteristics of balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated re-pricing dates whichever is earlier. The difference in the amount of assets and liabilities maturing or being re-priced in any time period category would then give the Group an indication of the extent to which the Group is exposed to the risk of potential changes in the net interest income.

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily by hedging its underlying positions. The types of derivatives used by the Group including foreign exchange rate and interest rate contracts are managed within limits approved by the Executive Committee. The Group has not designated any derivatives in any hedge relationship for the application of hedge accounting.

9 Market risk (Continued)

(b) Market risk under STM approach as at 31 December 2021

		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	2,798,138
2	Equity exposures (general and specific risk)	790,600
3	Foreign exchange (including gold) exposures	7,114,000
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	15,425
7	Other approach	–
8	Securitization exposures	–
9	**Total**	**10,718,163**

10 Liquidity risk

(a) Qualitative disclosure related to liquidity risk management

Governance of liquidity risk management

The Group's risk tolerance describes the level of risk that the Group is prepared to accept to achieve its strategic and business objectives. The risk tolerance is reviewed and approved by the Board periodically but at least annually with reference to changing industry and market developments. An acceptable risk tolerance is adopted in managing and controlling risks in a prudent manner with a view to achieving steady growth and reasonable returns. Various ratios and risk limits are set with reference to the legal and regulatory requirements to limit and control the risk exposure under an acceptable risk tolerance level and commensurate with prudent liquidity risk management practices.

The Board is ultimately responsible for overseeing the Group's liquidity risk management structure. The Risk Committee is delegated by the Board to oversee the Group's liquidity risk management, including approval of liquidity risk management policies and risk limits. The Asset and Liability Committee is delegated by the Board to oversee the Group's liquidity strategy, policies and practices, liquidity costs, benefits and risks are incorporated in the internal pricing, performance measurement and new product approval process for all significant activities, both on- and off-balance sheet.

The Risk Management Division is responsible for the day-to-day liquidity risk management. The Group's liquidity is managed by the Treasury Division in accordance with the guidelines and procedures laid down in the liquidity risk management policy.

Liquidity risk management

The Bank's operation is mainly funded by customer deposits and shareholders' funds. Diversified and stable funding sources are maintained by determining the appropriate mix of liabilities and building strong and lasting relationships with key fund providers in accordance with the liquidity risk management policy.

Liquidity is managed on a group basis, covering both the local and overseas operations as well as all related entities of the Bank. The formulation and management of the Group's funding strategy is centralised at the Treasury Division.

Adequate liquidity will be maintained at all times to meet obligations when they fall due in normal circumstances and an appropriate mix of additional stock of high quality liquid assets will be maintained to provide contingent liquidity in the event of a funding crisis. The normal borrowing capacity to obtain funds in the interbank market is estimated based on past experience and the wholesale funding need for both local and foreign currencies are limited to the amount which are comfortably within that borrowing capacity.

10 Liquidity risk (Continued)

(a) Qualitative disclosure related to liquidity risk management (Continued)

Liquidity risk management (Continued)

Liquidity risk is managed with regard to a variety of factors, including the liquidity maintenance ratio, core funding ratio, loan to deposit ratio, size of the liquidity cushion, maturity mismatch profile, the diversity and stability of the deposit base, and the ability to borrow in the interbank market to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is maintained at all times in order to enable the Group to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

Stress testing

The stress-testing results form an important component in assisting the Risk Committee in reviewing and endorsing the Group's risk tolerance levels, which are defined by internal limits on various risk ratios, as well as assisting the Asset and Liability Committee in managing the overall liquidity of the Group and to make informed strategic business decisions.

Contingency funding plan

The Contingency Funding Plan is a component of the Group's Business Continuity Plan, and describes the Group's strategy for dealing with any liquidity problems, and the procedures for making up cash flow deficits in emergency situations.

(b) Quantitative disclosure

Customised measurement tools or metrics

A cash-flow approach is adopted to managing liquidity risk by ensuring that a net positive cash-flow position is maintained or otherwise sufficient cash can be generated from assets or funding sources to cover any funding shortfalls. The starting point for the projection is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The projection is forward-looking and covers liquidity risks stemming from on-balance sheet assets and liabilities and off-balance sheet positions. Cash-flow projection is made over daily time bands of up to 7 days ahead and wider time bands of up to 1 year ahead. Internal limits are set to control the size of the cumulative net mismatch positions for the shorter-term time bands. Cash-flow projection covers positions in HK dollar and in all currencies in aggregate. Separate cash-flow projections are also performed for individual foreign currencies in which there are significant positions, such as US dollar and the renminbi.

Concentration limits on collateral pools and sources of funding

Retail deposits account for an important part of the Group's funding base, and the composition and quality of such deposits are carefully monitored and managed. Core deposits are characterised by their stability and reliability and are identified based on internally defined criteria. An internal target is set for the proportion of core deposits against total deposits.

Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries

The Group is not required to calculate the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") under the Banking (Liquidity) Rules. Instead, the Liquidity Maintenance Ratio ("LMR") and the Core Funding Ratio ("CFR") are used to measure respectively the short-term and long-term liquidity exposures of the Group against its funding needs. The LMR is the ratio of liquefiable assets to qualifying liabilities for the coming one month. Under the Banking Ordinance, the Group is subject to the statutory limit of the LMR, which is prescribed at 25%. The CFR is the ratio of the amount of available core funding to the amount of required core funding and measures the availability of funding from capital and liabilities to cover the amount of assets and off-balance sheet obligations that need to be funded. Under the Banking (Liquidity) Rules, the Group is under regulation to maintain a CFR of not less than 75% on average in each calendar month. Funding or liquidity support is provided to all branches outside of Hong Kong and such support is appropriately accounted for. The funding positions of the branches outside of Hong Kong are closely monitored and any regulatory or legal impediments to accessing liquidity will be addressed on a group basis. Other than branches outside of Hong Kong, the liquidity needs of other group companies are insignificant.

(All amounts in HK dollar thousands unless otherwise stated)

10 Liquidity risk (Continued)

(b) Quantitative disclosure (Continued)

Contractual maturity profile

	Next day	Within 1 month	> 1 month up to 3 months	> 3 months up to 1 year	> 1 year up to 5 years	Over 5 years	Balancing amount
Currency notes and coins	817,857	–	–	–	–	–	–
Amount receivable arising from derivative contracts	286,624	2,065	4,661	1,772	389	–	–
Due from MA for a/c of Exchange Fund	2,743,780	–	–	–	–	–	–
Due from overseas central banks	27,619	–	–	–	–	–	137,896
Due from banks	9,684,792	17,336,908	6,246,601	9,233,021	–	–	–
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)	66,515,112	142,004	798,484	4,864,497	5,975,652	2,455,130	2,874
Acceptances and bills of exchange held	109,170	133,386	147,258	94,902	–	–	–
Loans and advances to non-bank customers	5,736,316	6,972,616	11,188,818	20,225,680	33,375,635	15,513,526	5,062,278
Other assets	188,432	493,853	112,080	328,883	580,391	62,836	7,683,917
Total on-balance sheet assets	**86,109,702**	**25,080,832**	**18,497,902**	**34,748,755**	**39,932,067**	**18,031,492**	**12,886,965**
Total off-balance sheet claims	**–**	**977,434**	**230,917**	**–**	**–**	**–**	**633,949**
Deposits from non-bank customers	80,499,449	33,035,207	45,396,352	24,590,686	304,795	13,951	–
Amount payable arising from derivative contracts	224,424	1,018	3,688	1,772	389	–	–
Due to MA for a/c of Exchange Fund	–	–	389,915	–	–	–	–
Due to banks	1,476,828	3,067,516	4,315,193	489,351	–	–	–
Other liabilities	617,381	879,598	144,241	405,115	159,079	62,719	–
Capital and reserves	–	–	–	1,939,939	2,329,743	–	34,403,271
Total on-balance sheet liabilities	**82,818,082**	**36,983,339**	**50,249,389**	**27,426,863**	**2,794,006**	**76,670**	**34,403,271**
Total off-balance sheet obligations	**4,977,584**	**2,941,734**	**4,950,749**	**12,037,759**	**2,704,722**	**1,688,292**	**–**
Contractual Maturity Mismatch	**(1,685,964)**	**(13,866,807)**	**(36,471,319)**	**(4,715,867)**	**34,433,339**	**16,266,530**	
Cumulative Contractual Maturity Mismatch	**(1,685,964)**	**(20,497,958)**	**(52,024,090)**	**(116,723,920)**	**(95,982,982)**	**(6,040,088)**	

(All amounts in HK dollar thousands unless otherwise stated)

11 Interest rate risk in the banking book ("IRRBB")

Qualitative disclosure and quantitative disclosure are described in Note 3.2.4 of Notes to the Consolidated Financial Statements.

12 Non-bank Mainland exposures

The Bank	2021			2020		
Types of counterparties	On-balance sheet exposures	Off-balance sheet exposures	Total	On-balance sheet exposures	Off-balance sheet exposures	Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures	6,119,632	5,744	6,125,376	11,292,471	4,086	11,296,557
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	–	–	–	–	–	–
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	11,427,500	1,408,132	12,835,632	7,639,151	978,817	8,617,968
4. Other entities of central government not reported in item 1 above	96,412	–	96,412	2,967,436	–	2,967,436
5. Other entities of local governments not reported in item 2 above	189,795	–	189,795	1,083,003	172,813	1,255,816
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	5,592,311	558,362	6,150,673	7,380,726	808,929	8,189,655
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	891,280	–	891,280	877,993	488	878,481
Total	24,316,930	1,972,238	26,289,168	31,240,780	1,965,133	33,205,913
Total assets after provision	220,362,505			218,092,633		
On-balance sheet exposures as percentage of total assets	11.03%			14.32%		

(All amounts in HK dollar thousands unless otherwise stated)

13 Currency concentrations

Equivalent in Hong Kong Dollars	2021						
	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long/(short) position	Net structural position
US Dollars	99,377,000	(79,689,000)	22,560,000	(22,773,000)	161,000	19,636,000	1,919,000
Pound Sterling	7,758,000	(5,858,000)	2,495,000	(4,434,000)	4,000	(35,000)	64,000
Euro Dollars	1,550,000	(1,555,000)	736,000	(721,000)	(44,000)	(34,000)	–
Renminbi	24,218,000	(22,703,000)	2,791,000	(2,413,000)	(33,000)	1,860,000	5,548,000
Canadian Dollars	1,503,000	(1,539,000)	44,000	(14,000)	(33,000)	(39,000)	–
Australian Dollars	2,608,000	(2,671,000)	1,585,000	(1,566,000)	21,000	(23,000)	–
Other currencies and gold	2,761,000	(1,563,000)	6,302,000	(7,278,000)	(76,000)	146,000	–
	139,775,000	(115,578,000)	36,513,000	(39,199,000)	–	21,511,000	7,531,000

Equivalent in Hong Kong Dollars	2020						
	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net options position	Net long position	Net structural position
US Dollars	108,655,000	(81,811,000)	29,966,000	(28,323,000)	–	28,487,000	1,229,000
Pound Sterling	8,694,000	(6,695,000)	2,746,000	(4,736,000)	–	9,000	47,000
Euro Dollars	1,309,000	(1,350,000)	1,117,000	(1,070,000)	–	6,000	–
Renminbi	21,672,000	(20,086,000)	6,590,000	(6,521,000)	–	1,655,000	5,704,000
Canadian Dollars	1,662,000	(1,665,000)	17,000	(14,000)	–	–	–
Australian Dollars	2,934,000	(2,953,000)	2,294,000	(2,257,000)	–	18,000	–
Other currencies and gold	2,037,000	(1,056,000)	5,402,000	(6,179,000)	–	204,000	–
	146,963,000	(115,616,000)	48,132,000	(49,100,000)	–	30,379,000	6,980,000

Net structural position includes structural positions of the Bank's Hong Kong offices, overseas branches and subsidiaries. Structural assets and liabilities include:

– investments in properties and equipment, net of depreciation;

– capital, statutory reserves and unremitted profits of overseas branches; and

– investments in overseas subsidiaries and related company.

The net options position is calculated based on the delta-weighted positions of all foreign exchange option contracts.

The above disclosure is based on the significance of the Group's foreign currency exposures of the current year.

14 Disclosure on remuneration

Guiding principles

The Bank aims to sustain long-term capital preservation and financial strength for the benefits of all stakeholders and is committed to promoting a sound corporate culture of prudent risk-taking at all levels of the Bank, with staff at all times conscientiously serving the Bank by adhering to the established values. The Remuneration Policy (the "Policy") of the Bank is designed to promote fairness and consistency in the compensation approach; to attract, motivate and retain talents, to create and sustain a strong corporate culture that would drive performance prudently and appropriately as well as to help achieve the business goals under prudent risk management principles.

The Policy applies to the Bank in Hong Kong and its subsidiaries, where appropriate. While the basic principles are applicable to foreign branches, they are also subject to their local regulatory requirements in respective jurisdictions.

Nomination and Remuneration Committee

The Nomination Committee and the Remuneration Committee of the Bank have been merged into the Nomination and Remuneration Committee (the "Committee") with effect from 21 April 2021 with written Terms of Reference defining its authority and duties, regarding the remuneration aspect, to oversee the formulation and implementation of a sound remuneration policy by the Bank, and to ensure its consistency with the Bank's culture, long-term business and risk appetite, performance and control environment, the best practices and applicable legal and regulatory requirements; to review and make recommendations to the Board on the remuneration packages of all Directors, Chief Executive, senior management and key personnel of the Bank; to ensure a regular review on the Bank's remuneration system and its operation; to ensure that no Director, Chief Executive or any of their associates is involved in deciding their own remuneration; and to review and make recommendations to the Board on culture-related matters of the Bank.

Directly appointed by the Board of the Bank, majority of the members of the Committee are Independent Non-executive Directors. The Committee is chaired by Mr. Johnson Mou Daid CHA. The other members are Mr. Hung-ching YUNG and Mr. Gordan Che-keung KWONG.

Prior to the merge with effect from 21 April 2021, the Nomination Committee and the Remuneration Committee held their respective meeting in January 2021, while the Committee had its first meeting held during the year 2021 after its merge, and major items covered for the year include: to review and approve the annual independent review report on the Bank's remuneration system; to review and approve the Remuneration Policy in response to the Hong Kong Monetary Authority latest published version of the Supervisory Policy Manual CG-5 "Guideline on a Sound Remuneration System" ("CG-5") and the independent review; to review and recommend to the Board discretionary bonus mechanism and the remuneration packages of senior management and key personnel (inclusive of the vesting of the previous years' deferred portion); and to review the culture-related matters of the Bank.

Remuneration policy

The Committee reviews the Policy and the remuneration system at least annually and the Policy and review report will be submitted to the Board for approval. The review covered the composition of the senior management and key personnel, the roles and responsibilities of the Chief Risk Officer and Human Resources Division in relation to the remuneration system, the risk level and financial stability of the Bank, and the vesting of variable remuneration with reference to the risk appetite and the risk exposure of the Bank.

The Committee may at its discretion seek information and recommendations from relevant departments, committees or independent consultant as appropriate when conducting the review. In 2021, the Committee has engaged Ernst & Young to conduct an independent review on the effectiveness of the Bank's remuneration system to ensure compliance with the principles set out in CG-5.

14 Disclosure on remuneration (Continued)

Remuneration of directors, senior management and key personnel

The Committee is responsible for making recommendations to the Board on the formulation and review of the remuneration packages for Directors, the Chief Executive, senior management and key personnel, with reference to the Bank's financial condition and future prospect, risk management framework, reward and people strategies. Such packages are subject to the final approval of the Board.

The following groups of employees have been identified as the "Senior Management" and "Key Personnel" as defined in CG-5:

"Senior management" of the Bank includes the Chief Executive, Deputy Chief Executives and Division Chiefs of the Bank who report directly to Chief Executive and are responsible for the development and execution of Bank-wide strategy and/or activities and are collectively responsible for the risks that may arise.

"Key personnel" refers to individual staff member whose duties or activities in the course of the employment involve the assumption of material risks or the taking on of material exposures on behalf of the Bank.

No individual director/staff or any of his/her associates shall be involved in deciding his/her own remuneration package.

Remuneration structure

The remuneration package is a combination of fixed and variable remuneration. Fixed remuneration consists of basic salary, allowances, double pay and provident fund contribution. Variable remuneration takes into account the overall financial and non-financial performance of the Bank and individual business units, while individual performance is measured against the established key performance indicators, adherence to risk management policies, compliance with legal and regulatory requirements and ethical standards. The variable remuneration is awarded in the form of cash bonus and/or cash incentives.

A proportion of the variable remuneration of senior management and key personnel will be deferred and the vesting criteria of the deferred payment are subject to the impact of financial and non-financial factors over a period of time.

Performance measurements and the distribution of variable remuneration

The Bank maintains a performance evaluation scheme to ensure individual staff performance, which covers financial, non-financial and risk factors, would be differentiated into various levels, and be adequately and effectively evaluated. Adverse performance in non-financial factors, such as non-adherence to risk management policies, non-compliance with internal and regulatory standards, shall outweigh financial achievements. Final approval of the discretionary bonus which is all cash-based is determined by various quantitative and qualitative assessment criteria set out in the performance appraisal system.

The employees within risk control functions are remunerated independently. The performance of business units where they oversee does not affect their remuneration. Management of business units should not be involved in determining the remuneration of the employees in risk control functions.

When deciding the remuneration measures, the Bank shall also take into account certain key risk factors such as its asset quality, liquidity position, business environments, respective staff performance, the overall business results as well as long-term financial position. When reviewing and determining the discretionary bonus scheme, various financial and non-financial criteria including the individual performance of the staff by measuring against key performance indicators, adherence to the Bank's established values, implementation and accomplishment of business strategies, goals and objectives of the business and/or functional units under his/her supervision, compliance with regulatory requirements, adherence to risk management policies, code of conduct and ethical standards shall be taken into account. The overall performance of the Bank, and other factors that might have an impact on the future profitability, liquidity, financials and payout of the Bank should also be considered. The criteria of discretionary incentive payment shall include non-financial factors such as adherence to compliance requirements, customer satisfaction, and etc. which outweigh the quantitative targets. The established remuneration measures continued to apply in 2021. The timing and the portion of the performance-related bonus distribution are vested in the Committee and finally with the Board. The bonus (or part of it) may be withheld if the Bank's performance is not justified, or if the business objectives are not achieved, or when it is necessary to protect the financial soundness of the Bank. In the event that a staff is accountable for serious misconduct behaviour, including but not limited to, non-compliance with applicable laws, rules, regulations, policies, guidelines, etc. that leads to significant loss for the Bank, fraud or serious breach of internal rules, the performance evaluation of the staff should record the incident. Further, the salary and variable remuneration reviews (bonus and/or incentive payment), if any, should consider to reflect the misconduct outcome such as a reduction in variable remuneration, after taking into account the relevant indicators of the severity of the impact to the Bank.

(All amounts in HK dollar thousands unless otherwise stated)

14 Disclosure on remuneration (Continued)

Deferral arrangements

In view of the Bank's existing business model and organization structure, a portion of the discretionary bonus payment of senior management and key personnel is subject to an incremental deferral percentage to reflect their seniority, roles and responsibilities and bonus quantum, and vesting by equal portions over a period of three years in order to align with the long-term value creation and time horizons of risk. In circumstances where it is later established that any performance measurement is proven to have been manifestly misstated, or it is later established that the employee concerned has committed fraud, malfeasance, or has violated material internal control policies or breached the relevant rules and regulations, all or part of the unvested deferred variable remuneration for a particular year shall be foregone.

Senior management and key personnel remuneration

Quantitative information on remuneration for the Bank's senior management and key personnel during the financial year of 2021, split into fixed and variable remuneration, is set out below:

Remuneration amount and quantitative information		Senior management	Key personnel
Fixed remuneration	Number of employees	13	8
	Total fixed remuneration	**41,790**	**13,754**
	Cash-based	41,790	13,754
	Of which: deferred	–	–
	Other forms	–	–
	Of which: deferred	–	–
Variable remuneration	Number of employees	11	7
	Total variable remuneration	**32,304**	**7,184**
	Cash-based	32,304	7,184
	Of which: deferred	10,010	1,437
	Other forms	–	–
	Of which: deferred	–	–
Total remuneration		**74,274**	**20,938**

Notes:

(i) Remuneration refers to all remuneration payable to employees during the year when being appointed as senior management or key personnel under the Remuneration Policy.

(ii) For the purpose of Remuneration Policy, "senior management" of the Bank includes the Chief Executive, Deputy Chief Executives and Division Chiefs of the Bank who report directly to Chief Executive and are responsible for the development and execution of Bank-wide strategy and/or activities and are collectively responsible for the risks that may arise. "Key personnel" refers to employees whose duties or activities in the course of the employment involve the assumption of material risks or the taking on of material exposures on behalf of the Bank.

(All amounts in HK dollar thousands unless otherwise stated)

14 Disclosure on remuneration (Continued)

Senior management and key personnel remuneration (Continued)

Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior management	–	–	–	–	1	55
Key personnel	–	–	–	–	–	–

Deferred and retained remuneration in 2021	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustments	Total amount of amendment during the year of 2021 due to ex post explicit adjustments	Total amount of amendment during the year of 2021 due to ex post implicit adjustments	Total amount of deferred remuneration paid out in 2021
Senior management					
Cash	15,545	–	–	–	5,449
Other	–	–	–	–	–
Key personnel					
Cash	2,085	–	–	–	550
Other	–	–	–	–	–
Total	**17,630**	**–**	**–**	**–**	**5,999**

Notes:

(i) The outstanding deferred remuneration in the financial year relates to the 2019, 2020 and 2021 variable remuneration.

BRANCHES AND SUBSIDIARIES

Management and Administration

Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong
Telephone: (852) 2818 0282
Fax: (852) 2810 4623
SWIFT: SCBK HK HH
Web Site: www.shacombank.com.hk

Hong Kong Island Branches

Central Head Office	Lobby Floor, Shanghai Commercial Bank Tower, 12 Queen's Road Central
Aberdeen Branch	118 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	18 Pennington Street, Causeway Bay
Connaught Road Branch	G/F & 1/F Southland Building, 48 Connaught Road Central, Central
Hennessy Road Branch	Shop LG16, C. C. Wu Building, 302 Hennessy Road, Wanchai
North Point Branch	486 King's Road, North Point
President Theatre Branch	Shop A, G/F., 517 Jaffe Road, Causeway Bay
Shaukiwan Branch	136 Shaukiwan Main Street East, Shaukiwan
Sheung Wan Branch	G/F., 41-47 Jervois Street, Sheung Wan
Siu Sai Wan Branch	Shop 9, G/F., Harmony Garden, 9 Siu Sai Wan Road, Chai Wan
Taikoo Shing Branch	G502 Tai Yue Avenue, Taikoo Shing, Quarry Bay
Victoria Centre Branch	G7 Victoria Centre, 15 Watson Road, Causeway Bay
Wanchai Branch	19-21 Hennessy Road, Wanchai
West Point Branch	Shop 2, G/F, 57-61 Belcher's Street, West Point

Kowloon Branches

Jordan Road Branch	Shop 2, G/F., Sino Cheer Plaza, 23 Jordan Road, Jordan
Kowloon Bay Branch	Telford House, 16 Wang Hoi Road, Kowloon Bay
Kowloon Tong Branch	G28 Franki Centre, 320 Junction Road, Kowloon Tong
Kwun Tong Branch	57-61 Hong Ning Road, Kwun Tong
Laichikok Branch	Shops 5-8, G/F., Lai Kwan Court, 438 Castle Peak Road
Mei Foo Sun Chuen (Stage 1) Branch	29D Broadway, Mei Foo Sun Chuen, Laichikok
Mei Foo Sun Chuen (Stage 4) Branch	83B Broadway, Mei Foo Sun Chuen, Laichikok
Mody Road Branch	Units 101-103, 1/F., Wing On Plaza, 62 Mody Road, Tsimshatsui East
Mongkok Branch	666 Nathan Road, Mongkok

Kowloon Branches (Continued)

Ping Shek Estate Branch	115 Tsuen Shek House, Ping Shek Estate, Ngau Chi Wan
Sanpokong Branch	28 Hong Keung Street, Sanpokong
Sham Shui Po Branch	141 Cheung Sha Wan Road, Sham Shui Po
Tokwawan Branch	60 Tokwawan Road, Tokwawan
Tsimshatsui Branch	7 Hankow Road, Tsimshatsui
Tsimshatsui East Branch	G27 Houston Centre, 63 Mody Road, Tsimshatsui East
Waterloo Road Branch	84K Waterloo Road, Homantin
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4, Hunghom
Wong Tai Sin Branch Shop	Shop N117, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin

New Territories and Outlying Island Branches

Kingswood Villa Branch	Shop G08, G/F., +WOO Phase 2, 18 Tin Yan Road, Tin Shui Wai
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road, Kwai Chung
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan
Shatin Branch	Shop 70B, Level 3, Shatin Centre, Wang Pok Street, Shatin
Sheung Shui Branch	82 San Fung Avenue, Sheung Shui
Tai Po Branch	Shop 4, G/F., Mee Tak Building, Nos. 27-31, 35-43 Kwong Fuk Road, Tai Po
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road, Tsuen Wan
Tseung Kwan O Branch	Shops G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road, Tseung Kwan O
Tsuen Wan Branch	405 Castle Peak Road, Tsuen Wan
Tuen Mun Branch	Shops 1-3, G/F., Ming Wai Building, 4-26 Tuen Mun Heung Sze Wui Road, Tuen Mun
Tung Chung Branch	Shops 1-2, Block 5, Tung Chung Crescent, Tung Chung, Lantau
TVB Office	2/F., Workshop Block, TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate
Yuen Long Branch	17 Hong Lok Road, Yuen Long

Overseas Branches

London Branch	65 Cornhill, London, EC3V 3NB, U.K.
Los Angeles Branch	383 East Valley Boulevard, Alhambra, CA 91801, U.S.A.
New York Branch	125 East 56th Street, New York, NY 10022, U.S.A.
San Francisco Branch	231 Sansome Street, San Francisco, CA 94104, U.S.A.

Mainland Branches

Shanghai Branch	Room 913, China Merchants Tower, 161 Lu Jia Zui Road (E), Pu Dong, Shanghai 200120, P.R.C.
Shanghai FTZ Sub-Branch	Room 03-05, 15/F, 55 Ji Long Rd, Pu Dong, Shanghai 200131, P.R.C.
Shenzhen Branch	Room 01-03, 20/F, Tower One, Kerry Plaza, No.1 Zhong Xin Si Road, Futian District, Shenzhen 518048, P.R.C.

Wholly-owned Subsidiaries

Glory Step Westpoint Investments Limited
Hai Kwang Property Management Company Limited
Infinite Financial Solutions Limited
KCC 23F Limited
KCC 25F Limited
KCC 26F Limited
Right Honour Investments Limited
Shacom Assets Investments Limited
Shacom Futures Limited
Shacom Insurance Brokers Limited
Shacom Investment Limited
Shacom Property (CA), Inc.
Shacom Property (NY), Inc.
Shacom Property Holdings (BVI) Limited
Shacom Securities Limited
Shanghai Commercial Bank (Nominees) Limited
Silver Wisdom Westpoint Investments Limited

Subsidiaries

Paofoong Insurance Company (Hong Kong) Limited
Shanghai Commercial Bank Trustee Limited